

The Inspector General Act of 1978 (Public Law 95-452), as amended, sets forth specific requirements for Semiannual Reports to be made to the Secretary for transmittal to the Congress. Other statutory and administrative reporting and enforcement responsibilities and authorities are listed below:

AUDIT AND MANAGEMENT REVIEW RESPONSIBILITIES

Public Law (P.L.) 97-177	Prompt Payment Act
P.L. 97-255	Federal Managers' Financial Integrity Act
P.L. 100-504	Inspector General Act Amendments of 1988
P.L. 101-576	Chief Financial Officers Act of 1990
P.L. 103-62	Government Performance and Results Act of 1993
P.L. 103-356	Government Management Reform Act of 1994
P.L. 104-106	Information Technology Management Reform Act of 1996 National Defense Authorization Act for Fiscal Year 1996
P.L. 104-208	Federal Financial Management Improvement Act of 1996

CRIMINAL AND CIVIL INVESTIGATIVE AUTHORITIES

Title 5	United States Code (U.S.C.), section 552a(i)
Title 18	U.S.C., sections on crime and criminal procedures as they pertain to the Office of Inspector General's oversight of departmental programs and employee misconduct
Title 31	U.S.C., section 3729 et seq., the Civil False Claims Act, and 3801 et seq., the Program Fraud Civil Remedies Act
Title 42	U.S.C., sections 1320a-7, 1320a-7a, 1320c-5, 1395l, 1395m, 1395u, 1395dd, and 1396b

The Honorable Robert E. Rubin
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

Having been confirmed by the Senate on October 21, 1998, this is the first Semiannual Report that I will be submitting to you and the Congress as the Inspector General of the Department of the Treasury. I look forward to working with you and the Department's management team to provide quality service to the public.

This reporting period has been a time of transition for the Office of Inspector General (OIG) at the Treasury Department. The Internal Revenue Service Restructuring and Reform Act of 1998, signed into law on July 22, 1998, established within the Department a separate OIG for Tax Administration. Implementation of the new office is ongoing. In addition, a number of organizational changes have been made to increase the effectiveness of the OIG, and have resulted in a major realignment of performance measures commensurate with new responsibilities and organizational structures.

Our reorganization has focused on strengthening the Office of Investigations to increase productivity and enlarge the OIG's geographic presence; and on concentrating auditing responsibilities to better integrate program, financial, and information technology audit capabilities and provide more comprehensive audit coverage within the Department. These technical realignments will allow the OIG to better focus on its mission, vision, and strategic goals, while improving internal coordination.

Like many Federal agencies, we are focusing our efforts on strengthening our implementation of the Government Performance and Results Act requirements. As part of this process, we will be revisiting the OIG Strategic Planning Process to ensure alignment of strategic goals, objectives, and strategies; implement an automated Management Information System to enhance performance measurement, reporting, and real-time management control; and update the OIG Strategic Plan.

The OIG continues to concentrate on strengthening financial management at the Department and on accomplishing the audit requirements of the Chief Financial Officers Act and the Government Management Reform Act. During this reporting period, final reports were issued for several bureau and component entity audits, including the Treasury Forfeiture Fund, the Office of Thrift Supervision, the Federal Financing Bank, the United States Mint, the Financial Management Service, and the Bureau of the Public Debt.

As an agent of positive change, the OIG strives for continuous improvement in Treasury's management and program operations, and in its own offices. With the above mentioned organizational changes, we are better positioned to fulfill our responsibilities.

Sincerely,

David C. Williams
Inspector General

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AD-CV	Antidumping and Countervailing	INOMS	Integrated Network and
APHIS	Animal and Plant Inspection Service		Operations Management
ATF	Bureau of Alcohol, Tobacco and Firearms		System
ATM	Automated Teller Machine	INS	Immigration and
AUO	Administratively Uncontrollable Overtime		Naturalization Service
BEP	Bureau of Engraving and Printing	IRS	Internal Revenue Service
BPD	Bureau of the Public Debt	ISC	Integration Support
			Contract
CFO	Chief Financial Officers	IT	Information Technology
CMIA	Cash Management Improvement Act of 1990	ITOP	Interim Treasury Offset
			Program
COBRA	Consolidated Omnibus Budget	MACS	Midwest Automated
	Reconciliation Act of 1985		Compliance System
COTRs	Contracting Officer's Technical	Mint	United States Mint
	Representatives	MOU	Memorandum of
CPAs	Certified Public Accountants		Understanding
CRA	Community Reinvestment Act of 1977	NBFIs	Non-Bank Financial
CSR&DF	Civil Service Retirement and Disability		Institutions
	Fund	NCIC	National Criminal
Customs	United States Customs Service		Information Center
DCAA	Defense Contract Audit Agency	OCC	Office of the Comptroller
			of the Currency
DCIA	Debt Collection Improvement Act of 1996	OIG	Office of Inspector General
DO	Departmental Offices	OMB	Office of Management and
EARL	Electronic Audit Research Log		Budget
EBT	Electronic Benefits Transfer	OTS	Office of Thrift Supervision
EFTPS	Electronic Federal Tax Payment	P.L .	Public Law
	System	Results Act	Government Performance
EIC	Earned Income Credit		and Results Act
EINs	Employer Identification Numbers	SCMC	Service Center Mainframe
FDO	Fee Determination Official		Consolidation
FECA	Federal Employees' Compensation	SCR	Senior Customs
	Act		Representative
FFMIA	Federal Financial Management Improvement	Secret	United States
	Act of 1996	Service	Secret Service
FFRDC	Federally Funded Research and	SOT	Special Occupational Tax
	Development Center Contract	SSA	Social Security
FLETC	Federal Law Enforcement Training Center		Administration
FMS	Financial Management Service	SSNs	Social Security Numbers
FY	Fiscal Year	SSP	Source Selection Plan
G&A	General and Administrative	TBOR	Taxpayer Bill of Rights
GAO	General Accounting Office	TECS	Treasury Enforcement
GFE/GFI	Government Furnished Equipment/		Communications System
	Government Furnished Information	TINs	Taxpayer Identification
GMRA	Government Management Reform Act		Numbers
GPMO	Government Project Management Office	TQ	Temporary Quarters
GSMB	Government Securities Management Branch	TRIS	Telephone Routing
GTF	Government Trust Fund		Interactive System
GTOP	Grand Treasury Offset Program	U.S.C.	United States Code
IDRS	Integrated Data Retrieval System	VOP	Violent Offender Program
		Y2K	Year 2000

The OIG issued 56 reports during the reporting period with recommendations that funds be put to better use and questioned costs totaling \$5.6 million. The IRS Inspection Service issued 94 reports with recommendations that \$33,000 be put to better use. Monetary benefits relating to investigations conducted by the OIG and Offices of Internal Affairs and Inspection exceeded \$3.1 million. The following summaries represent major issues and concerns for the second half of Fiscal Year (FY) 1998.

FINANCIAL MANAGEMENT

■ The OIG rendered a qualified opinion on the FY 1997 consolidated custodial schedules and an unqualified opinion on the consolidated administrative financial statements. The audit report identified four material weaknesses, six other reportable conditions, and two instances of reportable noncompliance with laws and regulations. The OIG issued a supplement to this report in the current reporting period with specific recommendations to address the problems.

■ The OIG issued a supplement to its report, "Audit of the Internal Revenue Service Fiscal Year 1997 Administrative Financial Statements", which discussed the two material weaknesses and three other reportable conditions identified in the report, provided specific recommendations for corrective action, and provided the status of findings and recommendations contained in prior year audit reports issued by the General Accounting Office.

■ The Treasury Forfeiture Fund's FY 1997 financial statements, audited by an Independent Public Accountant, received an unqualified opinion. The Independent Public Accountant identified three material weaknesses in internal controls, two of which were repeat conditions. There were four other reportable conditions involving the use of different inventory tracking systems to analyze changes in seized and forfeited property, the valuation of forfeited property, inadequate monitoring of property placed with the national property contractor, and inadequate monitoring of the sale of property by the property contractor. Finally, the Independent Public Accountant's report on compliance cited one repeat instance of noncompliance with applicable laws and regulations. (See pages 7 to 13.)

IRS MODERNIZATION

■ The IRS Inspection Service still considers Modernization a Federal Managers' Financial Integrity Act material weakness and categorizes Modernization control weaknesses as "Program Management," "Infrastructure," and "Financial Management."

■ The Electronic Federal Tax Payment System (EFTPS) is the Government's electronic payment processing system. IRS management has made significant progress in implementing the EFTPS production system and enrolling the 1.2 million taxpayers mandated to pay electronically. However, the risk that processing will not be timely and accurate increases significantly as additional processing requirements and volumes are added. In addition, current-processing procedures caused unnecessary taxpayer and reporting agent burden, and increased the risk that IRS or financial agent personnel could make unauthorized disclosures of taxpayer information. (See pages 29 to 32.)

ELECTRONIC BENEFITS TRANSFER PROGRAM

■ The OIG recently evaluated the Department's initial efforts to resolve risks associated with Electronic Benefits Transfer (EBT) implementation. Although Treasury worked proactively with other agencies to recognize risks, not all risks identified were resolved. For example, a contractor had identified 18 potential vulnerabilities for the EBT system as it existed in 1996, including specific concerns about the Year 2000 Problem and the implementation of security controls. The vulnerabilities were not fully resolved because a Federal task force, in which the Department was a participant, was discontinued. (See pages 15 to 16.)

CUSTOMS' EFFORTS TO PREVENT NARCOTICS SMUGGLING IN LINE RELEASE CARGO

■ The OIG reviewed Customs' Line Release Program, a major commercial import processing method used to bring cargo into the United States, to determine the degree to which drug smugglers were taking advantage of the processing method. Customs' border drug interdiction efforts have received a great deal of criticism from members of Congress and the media due to a perceived decline in seizures, and Line Release has been labeled as one of the weak links that facilitates drug smuggling. While the OIG's findings indicated that Line Release may not be as vulnerable as surmised, Customs could neither provide this information nor project the likelihood that Line Release would be abused. Customs' program measurement and evaluation criteria emphasized trade compliance rather than narcotics interdiction, and its information systems did not contain the kind of data needed to assess Line Release. (See pages 19 to 20.)

FMS STRATEGIC PLANNING PROCESS

■ The OIG assessed FMS' strategic planning process and its consistency with the Government Performance and Results Act. Specific emphasis was placed on the extent to which FMS' strategic planning process addressed new legislative mandates, such as the Chief Financial Officers Act, the Government Management Reform Act, and the Debt Collection Improvement Act. FMS' strategic planning process has not produced performance results consistent with key customer and stakeholder expectations, and has suffered from significant inadequacies. Although FMS' strategic planning process has acknowledged problems, effective strategies and accurate timelines for resolving those problems have not been adequately determined. As a result, the implementation of legislative mandates has been too ambitious. (See pages 27 to 28.)

PROTECTING TAXPAYER RIGHTS

■ In a previous report covering four regional and twelve district offices, the IRS Inspection Service described an environment that used statistics in ways that created a competitive spirit. This environment placed some taxpayers' rights at risk, and created a potentially inappropriate evaluative atmosphere for some IRS employees. The current review, covering eleven district offices included in the prior report, found that IRS did not always properly exercise its seizure authority. Additional recommendations to improve the use of seizure authority and to ensure that both taxpayers' rights and IRS' interests are protected and maximized appeared in the report.

■ The Examination Division violated IRS policy by setting production goals and evaluating group managers and employees using enforcement statistics. The Division's corporate measures focused primarily on enforcement statistics, which led to an environment at the group manager and employee levels that placed emphasis on revenue and other statistical goals. Seven of Examination's 12 FY 1997 corporate measures involved recommended dollars. The remaining five measures related to cycle time, dollars collected, and average open years. No corporate measures addressed case quality, treatment of taxpayers, or the proper amount of tax assessed. (See pages 24 to 26.)

DEPARTMENTAL WORKERS' COMPENSATION COSTS REDUCED

■ In 1996 and 1997, based upon recommendations made in an OIG Management Implication Report, the Department reduced its Federal Employees' Compensation Act (FECA) costs from 1995 levels by over \$855,000. Based upon current year projections, savings for FY 1998 are estimated at \$2 million, representing a nearly 3 percent reduction in costs from 1995. By adopting the OIG's recommendations, Treasury has begun to focus more attention on the FECA program and its cost to the Department in terms of both personnel and budget. (See page 36.)

ATF SPECIAL AGENT PLEADS GUILTY TO CONSPIRACY AND BRIBERY

■ An ATF special agent, who pled guilty to conspiracy and bribing a public official, was sentenced to 41 months of incarceration and 3 years of supervised release. The special agent had participated in a conspiracy which resulted in over 100 illegal aliens being authorized permanent residence status on their alien passports (the final step before receiving a green card.) ATF investigators had been alerted to the possibility of illegal activity as a result of an administrative investigation into the special agent's financial affairs, which had been initiated due to an allegation that the special agent appeared to be living beyond his means. The special agent subsequently resigned from ATF. (See pages 37 to 38.)

Under the provisions of the Inspector General Act of 1978, as amended, Treasury's OIG reports to the Congress semiannually on its activities. This report, which covers the second half of FY 1998, describes major issues and concerns identified during reviews, audits, evaluations, and investigations, along with recommendations for corrective action. **Because the report describes selected significant reviews and investigations, the conditions should not be considered as representative of overall conditions in the Department of the Treasury and its bureaus.**

Treasury's OIG consists of the following components:

- The **Audit Directorate**,
- The **Investigations Directorate**, and
- The **Resources Directorate**.

In accordance with the Government Performance and Results Act (Results Act), the OIG is engaging in a strategic planning process with the goals of achieving the greatest impact from available resources and ensuring mission accomplishment and customer satisfaction. The **OIG's** mission is to conduct independent audits, investigations, and reviews to help the Department accomplish its mission; improve the Department's programs and operations; promote economy, efficiency, and effectiveness; and prevent and detect fraud and abuse.

In addition to Treasury OIG operations, the report covers the activities of the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service. The Inspector General is responsible for oversight of internal investigations by the Offices of Internal Affairs and Inspection at ATF, Customs, and Secret Service and of the IRS Inspection Service's internal audits and investigations.

The **ATF Office of Inspection** plans, directs, and coordinates ATF's inspection and internal affairs activities. Those activities include: office and program inspections, which appraise the effectiveness of ATF operations, assess the quality of management and supervision, and determine adherence to organizational policies, regulations, and procedures; shooting reviews; and investigations into allegations of employee misconduct (both administrative and criminal), fraudulent Office of Worker's Compensation Program claims, and bribery, and investigations of tort claims and other critical or sensitive incidents. All findings are reported to the Director of ATF and his Executive Staff. In addition, the Office of Inspection executes ATF's personnel security program.

As part of its shared responsibility with management to secure the right of every Customs employee to work in an environment that is free from corruption, misconduct, or mismanagement, the **Customs Office of Internal Affairs** investigates allegations of misconduct; reports investigative results in a professional and timely manner; screens potential Customs employees for character and suitability; educates Customs employees regarding ethical standards and integrity responsibilities; evaluates physical

security threats to Customs employees, facilities, and sensitive information; and inspects Customs operations and processes for managerial effectiveness and improvement.

Guided by a commitment to uphold the policies of **Secret Service** and to ensure quality assurance, the **Office of Inspection's** responsibilities include internal special investigations, policy compliance reviews, ethics awareness, reviews of operational programs, and validation of career development and training programs. As a unique operational unit, which is responsible for critical and impartial reviews, the Office of Inspection provides objective and unbiased feedback and oversight that validates both the Secret Service strategic and customer service plans.

The **IRS Inspection Service** provides independent services to promote the effective administration of the nation's tax laws; detect and deter fraud and abuse in IRS programs and operations; and protect IRS against external attempts to corrupt or threaten its employees. The organization, which includes Internal Audit and Internal Security functions, is headed by the Chief Inspector, who reports directly to the IRS Commissioner and is overseen by Treasury's Inspector General. This arrangement ensures that audit and investigative results are reported independently to the IRS Commissioner and the Secretary of the Treasury.

The Internal Revenue Service Restructuring and Reform Act of 1998, signed into law on July 22, 1998, established within Treasury an OIG for Tax Administration, in addition to the existing OIG. The Act transfers the functions of the IRS Chief Inspector to the Treasury Inspector General for Tax Administration in January 1999. The Treasury Inspector General for Tax Administration will exercise all duties and responsibilities of an Inspector General on all matters relating to IRS and will have sole authority to conduct an audit or investigation of the IRS Oversight Board and the Chief Counsel for IRS. In the future, the OIG for Tax Administration will report its work on IRS in its own Semiannual Report.

TREASURY FUNCTIONS AND ORGANIZATION

Treasury is organized into 12 bureaus and offices. Treasury's mission is to formulate and recommend economic, fiscal, and tax policies; serve as the financial agent of the United States Government; enforce the law; protect the President and other officials; and manufacture coins and currency.

The OIG and Offices of Internal Affairs and Inspection perform reviews of Treasury's many roles, which include such diverse functions as striking commemorative medals, enforcing national firearms and explosives laws, and investigating financial institution fraud. Today, nearly 142,000 full-time Federal employees work for the Department of the Treasury throughout the world. Treasury, as one of the oldest Federal agencies, performs some of the most fundamental governmental activities, including collecting and borrowing the money to run the United States Government, and enforcing Federal laws.

The Chief Financial Officers (CFO) Act and Government Management Reform Act (GMRA), which are intended to strengthen Federal financial management, require audited financial statements. The CFO Act requires audited financial statements for revolving funds, trust funds, and significant commercial activities. The GMRA extends these requirements to encompass all accounts and activities of the agencies covered by the CFO Act.

The process of preparing and auditing financial statements has resulted in the identification of areas for improvement in management controls and business processes. Using this information, Department and bureau managers can more effectively fulfill their responsibilities, as well as provide an audited annual reporting of their financial positions and operations.

FINANCIAL AUDITS

Financial statements audit work at the Department is primarily based on the CFO Act and GMRA requirements. However, financial statements audits performed pursuant to other statutory requirements or Treasury management initiatives also are incorporated into the overall audit plan. The OIG opined on the Department's FY 1997 consolidated administrative financial statements and the consolidated custodial schedules. In addition, IRS, Customs, ATF, and BPD were designated for stand-alone FY 1997 financial statements audits by the Office of Management and Budget (OMB) under GMRA. For FY 1998, stand-alone audited financial statements will only be required for IRS, Customs, and ATF. Financial statements audits required by other statutes include BEP, the Federal Financing Bank, OCC, the Mint, the Treasury Forfeiture Fund, OTS, the Exchange Stabilization Fund, and the Community Development Financial Institutions Fund. The "Department of the Treasury Audited Financial Statements" table at the end of this section provides a summary of financial statements audits performed for FYs 1995 through 1997.

The OIG utilized a variety of resources to accomplish financial statements audit requirements at the Department. The OIG worked with the General Accounting Office (GAO) at IRS, BPD, and FMS, as these bureaus' financial statements are significant to Government-wide, as well as Treasury, financial reporting. For FY 1997, the OIG audited the Treasury consolidated administrative statements and custodial schedules, IRS administrative financial statements, Customs, the Exchange Stabilization Fund, Secret Service, and the Mint gold and silver reserves. The OIG provided contract oversight for audits performed by Independent Public Accountants at ATF, DO, the Federal Financing Bank, the Treasury Forfeiture Fund, BEP, the Mint, OCC, OTS, the Community Development Financial Institutions Fund, and portions of FMS and BPD. This Semiannual Report includes details of audit results at bureaus and other Treasury component entities for which reports were not issued as of March 31, 1998.

Department-wide Financial Statements

The Department's activities are distinguished between those that are carried out on behalf of the Federal Government as a whole (custodial activities) and those that represent the specific programs and activities unique to Treasury (administrative activities). The Department performs numerous functions on behalf of the Federal Government, including servicing the public debt, collecting Federal revenues, disbursing Federal funds, and maintaining certain Federal assets and liabilities. The consolidated custodial schedules are designed to report on these activities.

Through its bureaus and Departmental Offices, Treasury is responsible for formulating, recommending, and implementing economic, fiscal, and tax policies; carrying out a variety of law enforcement responsibilities; and serving as the financial agent for the Federal Government. These and other Treasury-specific programs and activities are reported in the Department's consolidated administrative financial statements.

In the March 1998 Semiannual Report, the OIG highlighted the audit results of the Department's FY 1997 consolidated custodial schedules and consolidated administrative financial statements (Report #OIG-98-066), which are included in the Treasury FY 1997 Accountability Report. The OIG rendered a qualified opinion on the FY 1997 consolidated custodial schedules and an unqualified opinion on the consolidated administrative financial statements. The audit report identified four material weaknesses, six other reportable conditions, and two instances of reportable noncompliance with laws and regulations. The OIG issued a supplement to this report in the current reporting period with specific recommendations to address these problems.

Treasury Component Entity Financial Statement Audits

The consolidated Department-wide audit report reflects the cumulative results of audit work performed at 15 Treasury component entities, as well as the consolidation itself. Highlights of the individual component entity audits for which final reports were issued during the current period appear below.

■ The OIG issued a supplement to its report, "Audit of the **Internal Revenue Service** Fiscal Year 1997 Administrative Financial Statements" (Report #OIG-98-063), which discussed the two material weaknesses and three other reportable conditions identified in the report, provided specific recommendations for corrective action, and provided the status of findings and recommendations contained in prior year audit reports issued by GAO.

■ The **Treasury Forfeiture Fund's** FY 1997 financial statements, audited by an Independent Public Accountant, received an unqualified opinion. The Treasury Forfeiture Fund consolidates all Treasury law enforcement organizations under a single forfeiture fund program administered by the Department. Treasury Forfeiture Fund participants include Customs, IRS, ATF, Secret Service, the Financial Crimes Enforcement Network, and FLETC, as well as the United States Coast Guard. An

important purpose of the fund is to encourage state and local law enforcement involvement through the equitable sharing of forfeited assets. The fund is used to centralize the accounting for property or currency seized during Treasury law enforcement operations and to share this property with Federal, state, and local law enforcement agencies that directly participated in the seizure and forfeiture.

Although the Treasury Forfeiture Fund's FY 1997 financial statements received an unqualified opinion, the Independent Public Accountant identified three material weaknesses in internal controls, two of which were repeat conditions. Accounting records primarily continued to be maintained on the cash basis of accounting, rather than the accrual basis, and the general ledger did not include all balances and transactions that were reflected in the financial statements. In addition, Customs' Seized Assets and Case Tracking System did not contain accurate and sufficient data that could be relied upon to prepare the analysis of changes in forfeited and seized currency and property.

There were four other reportable conditions involving the use of different inventory tracking systems to analyze changes in seized and forfeited property, the valuation of forfeited property, inadequate monitoring of property placed with the national property contractor, and inadequate monitoring of the sale of property by the property contractor. The first two reportable conditions were previously identified. These issues will remain of continuing significance until the necessary internal control improvements and systems changes are implemented.

The Independent Public Accountant's report on compliance cited one repeat instance of noncompliance with applicable laws and regulations. The Budget and Accounting Procedures Act of 1950, as amended, requires Federal agencies to establish an internal control structure that ensures the safeguarding of assets and the proper recording of revenues and expenditures. As noted above, the Treasury Forfeiture Fund's internal control structure had certain material weaknesses that resulted in noncompliance with the Act.

■ An Independent Public Accountant rendered an unqualified opinion on **OTS'** financial statements for the year ended December 31, 1997. Reports on internal controls and compliance with laws and regulations disclosed no reportable conditions or instances of noncompliance. OTS officials corrected the reportable condition identified in the previous report. Internal control concerns associated with separating duties for certain users of the payroll/personnel system were resolved.

■ An Independent Public Accountant rendered an unqualified opinion on **OCC's** financial statements for the year ended December 31, 1997. Reports on internal controls and compliance with laws and regulations disclosed no material weaknesses or instances of noncompliance.

■ An Independent Public Accountant rendered an unqualified opinion on the **Federal Financing Bank's** Statement of Financial Position as of September 30, 1997, related statements of operations and accumulated deficit, and cash flows. The Federal Financing Bank provides loans to Federal agencies and non-Federal entities, and

purchases loans from Federal agencies. Loans to non-Federal borrowers, including foreign governments, are secured by Federal agency guarantees.

The Federal Financing Bank continues to incur significant losses because of legislation favoring certain borrowers, and it is unlikely that net earnings will be sufficient to fund its liabilities and eliminate its accumulated deficit of \$3.2 billion as of September 30, 1997. As a result, Federal Financing Bank management is seeking an appropriation.

The Independent Public Accountant's report on internal controls identified three new reportable conditions. Federal Financing Bank management had not: (1) established a process to determine the necessary allowance for certain loan losses for financial reporting purposes; (2) retained qualified personnel; and (3) promptly transferred funds associated with a borrower's prepayment of certain loans from the borrower account to the account of the Civil Service Retirement and Disability Fund (CSR&DF). This untimely transfer resulted in lost interest, for which the Federal Financing Bank may be required to compensate the CSR&DF. In addition, the Federal Financing Bank lacked a single, integrated financial management system, which is a continuing reportable condition. There were no instances of noncompliance with laws and regulations.

■ An Independent Public Accountant rendered an unqualified opinion on the **Mint's** financial statements for the year ended September 30, 1997. However, the report on the internal control structure identified one continuing material weakness. The financial management system is comprised of diverse mainframe, manual, and personal computer based systems. These systems are not integrated and do not provide management with useful, timely information. In addition, the current system cannot generate consolidated financial information, and management must rely upon manual cost accumulation and reconciliation procedures for reporting financial information. As a result, management may be precluded from effectively measuring operating goals and progress in achieving those goals. The Mint is aware of the deficiencies, has redefined its requirements, and is implementing a new integrated financial management system.

The Independent Public Accountant's report on compliance cited one instance of noncompliance with laws and regulations. The Mint's financial management system did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

■ The OIG contracted for an audit of the FY 1997 financial statements of the **FMS Salaries and Expenses Appropriation**. The Independent Public Accountant rendered an unqualified opinion on the statements and did not report any instances of noncompliance with laws and regulations. However, the Independent Public Accountant reported, as a continuing material weakness, that FMS has difficulty maintaining controls associated with property and equipment. The itemized subsidiary records did not support the general ledger, write-offs were not adequately supported, monthly postings of activity did not occur, and reconciliation of subsidiary records to the general

ledger was inadequate. Two other prior year reportable conditions related to proper inventory valuation and payroll reconciliation were resolved.

■ **FMS** administers approximately 140 accounts having assets totaling \$62 billion and revenues and financing sources of \$8 billion. These accounts, collectively referred to as the **Miscellaneous Accounts**, relate to international monetary programs, multilateral lending assistance, deposit funds, general fund receipts, and other activities. An Independent Public Accountant was engaged to audit the statement of custodial assets, liabilities and net position of the Miscellaneous Accounts as of September 30, 1997, but, due to material weaknesses in the internal control structure, disclaimed an opinion.

The Independent Public Accountant identified six reportable conditions, which included four material weaknesses. Because the Miscellaneous Accounts were accumulated from different areas within FMS and the Department, there was no defined and coherent structure to administer, account for, and report the programmatic and accounting activity. Financial reporting inconsistencies existed among the accounts due to their disparate natures and combination into a single set of custodial financial statements. In addition, general ledger systems did not exist for several of the accounts, and balances in the Treasury Receivable Accounting and Collection System were not reconciled. Finally, a material weakness was identified regarding the accounting and presentation of loans made by the United States to foreign governments.

The Independent Public Accountant's report on compliance with laws and regulations noted that FMS did not substantially comply with the FFMTA requirement to implement and maintain financial systems that conform with the United States Government Standard General Ledger. FMS neither maintained general ledgers for some of the Miscellaneous Accounts nor used double entry accounting to record program transactions for those accounts. Instead, FMS maintained the records using non-integrated spreadsheet and database systems.

■ An Independent Public Accountant audited fifteen significant Government Trust Fund (GTF) custodial financial statements prepared by the **BPD Government Securities Management Branch (GSMB)** for the year ended September 30, 1997. These financial statements report the accounting and investment activity performed by GSMB as custodian of trust fund monies and investments. The Independent Public Accountant issued unqualified opinions on these statements. While GSMB provides these custodial services, the program agencies are responsible for administering, regulating, and monitoring program activities financed through the GTFs.

Reportable conditions associated with each of the fifteen funds varied from two to five, but none were considered material. The reportable conditions included a lack of adequate policies and procedures for coordinating cash management among the principal groups responsible for the GTFs, and the lack of cash management forecasts needed by GSMB trust fund accountants in making investment decisions. The reports on compliance with laws and regulations contained no instances of noncompliance.

The Independent Public Accountant also performed a review of the processing of transactions related to the investment accounts of various Federal agencies serviced by GSMB. This review was performed in accordance with American Institute of Certified Public Accountants Statement of Auditing Standards No. 70, "Reports on Processing of Transactions by Service Organizations." The Independent Public Accountant concluded that GSMB's policies and procedures, placed in operation as of September 30, 1997, provided reasonable assurance that specified control objectives would be achieved. The Independent Public Accountant's report on compliance with laws and regulations contained no instances of noncompliance. Management agreed with recommendations designed to clearly define policies and procedures related to GSMB investment and redemption transactions and automated functions. (OIG)

**DEPARTMENT OF THE TREASURY
AUDITED FINANCIAL STATEMENTS**

	FY 97 Audit Results		FY 96 Audit Results		FY 95 Audit Results	
	Opinion	Material Weaknesses	Opinion	Material Weaknesses	Opinion	Material Weaknesses
Department-Wide						
Treasury Administrative	Unqualified	4	(A)	2	Not Audited	-
Treasury Custodial	Qualified		Not Audited	-	Not Audited	-
Headquarters/DO						
Exchange Stabilization Fund (S)	Unqualified	0	Unqualified	0	Unqualified	0
Federal Financing Bank (S)	Unqualified	0	Unqualified	1	Unqualified	3
Community Development Financial Institutions Fund (S)	Unqualified	2	Not Audited	-	Not Audited	-
DO	Unqualified	0	Unqualified	0	Unqualified	0
Tax/Trade/Enforcement						
IRS Administrative (D)	Unqualified	2	(B)	5	Disclaimer	2
IRS Custodial (D)	Unqualified	6	(C)	3	Disclaimer	3
Customs (D)	Unqualified	2	Unqualified	3	SFP only Unqualified	5
ATF (D)	Unqualified	0	Unqualified	0	SFP only Unqualified	0
Secret Service (F)	Qualified	2	SFP only Qualified	2	Not Audited	-
Treasury Forfeiture Fund (S)	Unqualified	3	Unqualified	2	Unqualified	3
Central Fiscal Services						
FMS-Salaries and Expenses	Unqualified	1	Unqualified	1	Unqualified	1
FMS Miscellaneous Accounts	Disclaimer	4	Survey	-	Not Audited	-
FMS Central Agency Accounts	(E)	1	Not Audited	-	Not Audited	-
BPD-GTFs (G)	Unqualified	0	Unqualified	0	Not Audited	-
BPD-Administrative (D)	Unqualified	0	Unqualified	0	Not Audited	-
BPD Custodial (D) (H)	Unqualified	0	Not Audited	-	Not Audited	-
Banking/Thrift Oversight						
OCC (S)	Unqualified	0	Unqualified	0	Unqualified	0
OTS (S)	Unqualified	0	Unqualified	0	Unqualified	0
Manufacturing						
BEP (S)	Unqualified	0	Unqualified	0	Unqualified	0
Mint (S)	Unqualified	1	Unqualified	1	Unqualified	2
Mint Custodial Gold and Silver Reserves (S)	Unqualified	0	Unqualified	0	Unqualified	0

A= For the Department's administrative financial statements, the OIG rendered an unqualified opinion on four of five lines of business and a disclaimer on the Tax/Trade business line.

B= Qualified opinion on SFP; disclaimer on statement of operations.

C= Qualified opinion on statement of custodial activity; disclaimer on SFP.

D= Designated by OMB under GMRA for FY 1997 component entity audited financial statements.

E= Audit procedures performed to determine that cash balances managed by FMS were reliable in all material respects. Separate audit opinion not issued.

F= FY 1997 audit report issued subsequent to September 30, 1998.

G= Audit scope limited to the accounting, investment, and financial reporting services provided by BPD to the GTFs.

H= Consists of schedule of Federal debt and schedule of loans receivable from Federal entities and related interest receivable.

S= Separate statutory audit requirements incorporated into GMRA audit plan.

SFP= Statement of Financial Position

The Inspector General Act of 1978 established OIGs to promote the efficiency, economy, and effectiveness of Federal programs and operations. At Treasury, the 1988 Amendments to the Act have resulted in a program of audits and evaluations that focuses on internal controls, management assessment, and program compliance and performance. This work enables the OIG to provide independent, objective assessments of programs and performance which help to improve the Department's operations and ensure that programs achieve desired results.

As the Department addresses critical changes affecting its bureaus and programs, the OIG believes that its work is helping by providing independent, objective information and recommendations for program improvements. The OIG has sought to provide products that its customers, departmental managers, and the Congress will find useful and relevant. One of the OIG's objectives is to assist decision makers in finding solutions to the problems they face in new or modified programs and with rapidly changing technology that affects all areas of business and finance.

PERFORMANCE REVIEWS

Electronic Benefits Transfer Program

EBT is a major Government initiative to deliver as much as \$78 billion in benefits, such as food stamps, to an estimated 10 million individuals without bank accounts. EBT includes any delivery system that replaces paper benefit distribution with the electronic transfer of benefits and provides electronic access in the form of a plastic card. A majority of states have implemented or are developing EBT systems to deliver benefits.

Through its High Risk Series Report on Information Management and Technology, GAO found that advanced technology systems often encounter serious risks, including information security and the Year 2000 (Y2K) Problem. Accordingly, responsible officials should continuously monitor the systems' implementation in order to quickly resolve developmental problems and mitigate risks. The OIG recently evaluated the Department's initial efforts to resolve risks associated with EBT implementation.

Although Treasury worked proactively with other agencies to recognize risks, not all risks identified were resolved. For example, a contractor had identified 18 potential vulnerabilities for the EBT system as it existed in 1996, including specific concerns about the Y2K Problem and the implementation of security controls. The vulnerabilities were not fully resolved because a Federal task force, in which the Department was a participant, was discontinued. Systems supporting EBT therefore were at a greater risk for the Y2K Problem and other security breaches or unauthorized intrusions.

Treasury officials acknowledged the potential vulnerabilities that were unresolved. FMS is addressing the issues through an Intergovernmental Risk Advisory Forum, which was created after the Federal task force to address vulnerabilities associated with EBT and is comprised of Federal and state agencies.

Departmental officials agreed with the OIG's four recommendations, which address Treasury's efforts to minimize EBT system risks. In response to the recommendations, Departmental officials plan to: (1) complete current risk assessments on two EBT processes used by contractors; (2) develop standards and policies for Government cards, including EBT, which affect the Treasury's cash account; (3) work with the Intergovernmental Risk Advisory Forum to develop EBT risk policies as needed; and (4) develop an action plan for addressing the 18 potential vulnerabilities, which includes requiring a contractor certification that assures immunity from the Y2K Problem for all systems supporting EBT. (Report #OIG-98-081)

Customs' Enhanced User Fee Revenue

The Government collects user fees to pay the cost of the inspection of arriving air and sea passengers by Customs, the Department of Agriculture's Animal and Plant Inspection Service (APHIS), and the Department of Justice's Immigration and Naturalization Service (INS). These fees generate significant revenues for the Government, averaging over \$650 million a year for the 3 years ending in FY 1996. Because the laws do not require air and sea carriers to provide support for the carriers' remittance of the fees collected, agencies must rely heavily on their audit functions to ensure industry compliance.

The OIG found that a coordinated single audit approach amongst the Departments of Treasury, Agriculture, and Justice offered many benefits to the Government and private industry. The OIG estimated that the Government could have realized nearly \$49 million in additional revenue had one agency audited on behalf of the other two during the 3½ years reviewed. (Customs' portion of this additional revenue would have been over \$23 million.) A coordinated single audit approach also would offer the agencies opportunities to increase audit coverage, improve productivity, reduce audit costs, and minimize regulatory burden on private industry.

To achieve the benefits of a coordinated single audit approach, the agencies need to address certain obstacles, none of which are insurmountable with executive management's support. The OIG recommended that Customs propose a coordinated single audit approach to the other agencies and address the obstacles through a formal interagency working agreement, coordinated audit planning, a standardized audit process, improved interagency cooperation and liaison, and streamlined collections.

Customs agreed that a coordinated audit approach for user fees offers many benefits and has taken action to implement or address the OIG's recommendations. Customs management has formally endorsed the single audit concept; an interagency memorandum of understanding (MOU) has been executed; and Customs and APHIS

are working to standardize their audit approach, expand their audit coverage, leverage their resources, and streamline their billings and collections. (Report #OIG-98-083)

Customs' Oversight of Consolidated Omnibus Budget Reconciliation Act Funds

The OIG audited Customs' oversight of the monies collected from user fees authorized by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Revenue from these fees is to be used to pay Customs' processing costs for certain passengers, vessels, vehicles, and conveyances entering the country. From COBRA's inception through FY 1995, the Government collected over \$1.7 billion from the user fees. During the same period, Customs used over \$1.3 billion to fund its COBRA activities, resulting in a surplus of \$392 million.

Customs has become dependent on the fees to maintain operations and services. At the close of FY 1995, the user fees funded the annual cost of nearly 1,000 Customs inspection personnel and provided more than \$135 million of equipment for over 100 field locations. Many of these COBRA resources are now an integral part of local operations, which could be affected if the level of funding or services changes. Customs' annual COBRA expenditures are steadily increasing and, in recent years, Customs has had to rely on surplus COBRA funds to fully fund the current year's activities. As a result, the OIG estimates that the surplus can sustain Customs' service and costs for only a few more years before changes in fees or services may be needed.

Despite this growing dependence, the control environment surrounding Customs' COBRA activities was weak and did not meet Federal standards. Accountability was not well established; current policies, procedures, and controls were lacking; accounting and reporting were ineffective and prone to system limitations; and management's expectations for local managers were not being monitored or enforced. As a result, few controls existed to ensure that COBRA funding or resources were needed and used for purposes authorized by the Act. The OIG reported numerous instances in which local managers did not comply with Customs' policies and procedures, and where COBRA resources were used to supplant services that should have been funded by Customs' Salary and Expenses appropriation. In addition, the OIG questioned the propriety of using COBRA funds to pay the cost of overtime and premium pay for inspection personnel not involved in processing functions in support of those paying the COBRA fees.

Customs also did not comply with the Act's Congressional reporting requirements. Specifically, Customs never provided the biennial reports needed to adjust the user fees to reflect the Government's cost and maintain the surplus at or near a zero balance. (Despite a large and growing surplus, the user fees have been adjusted only once since inception, an increase to compensate the Government for revenues lost due to the North American Free Trade Agreement.) Customs' annual expenditure reports to Congress have not been accurate, consistent from year to year, or useful for overseeing Customs' COBRA activities and expenditures.

The OIG believes that Customs needs to improve management and oversight of its COBRA activities and expenditures if Congress is to address the difficult policy issues related to COBRA fees and services. Among the OIG's recommendations were that Customs: (1) provide Congress notice of potential future funding problems; (2) seek clarification from Congress or the Comptroller General as to the propriety of using the fees to pay the cost of all overtime and premium pay of personnel not involved in COBRA processing activities; (3) improve the overall control environment surrounding COBRA activities and funding; and (4) improve its reporting to Congress on COBRA activities. Customs agreed with most of the OIG's recommendations and has taken corrective action. The three recommendations with which Customs did not agree are discussed in the Disputed Audit Recommendations section of the Statistical Summaries chapter of this report. (Report #OIG-98-096)

ATF's Violent Offender Program

Criminal justice statistics show that a small percentage of criminals are responsible for a disproportionate percentage of violent crime in the United States. In 1984, Congress enacted the Armed Career Criminal Act, which gave ATF the capability to remove armed career criminals from society. The Act provides for 15 years of mandatory imprisonment for any defendant convicted of possessing a firearm who has three previous convictions for a violent felony or serious drug offense. To help take advantage of the Act's provisions, ATF designed the Violent Offender Program (VOP), an aggressive proactive approach to identifying, investigating, and prosecuting the top violent criminals in the nation.

An OIG review found that ATF field offices maintained varying levels of commitment to the VOP, and did not always keep accurate files on criminals because it was labor intensive to do so. In addition, Federal, state, and local law enforcement databases were not always configured in a manner that was helpful to ATF for identifying violent offenders for the VOP. Although one of the primary purposes of the VOP was to enhance officer safety, officers interviewed by the OIG did not believe their safety had been significantly increased. Furthermore, enhanced sentences were infrequent for violent offenders who had been entered into the VOP and then apprehended with a firearm.

Until ATF can access alternate enforcement systems to obtain useful data on violent criminals, the VOP will not operate efficiently or have a maximum impact on violent crime. The OIG recommended that ATF restructure the VOP so that it will operate more effectively. While ATF concurred with the OIG's recommendations, it stated that it is considering discontinuing the VOP as the program currently exists and allowing the National Criminal Information Center (NCIC) to assume control of the VOP. This issue will be discussed at a NCIC Policy Board meeting. Should ATF remain responsible for the VOP, it will draft a specific plan of action to revise target levels for field divisions; ensure that divisions maintain accurate records; identify enforcement systems with data that would benefit the program; and assess law officer safety. (Report #OIG-98-086)

OCC Implementation of Community Reinvestment Act Small Bank Performance Standards

The Community Reinvestment Act of 1977 (CRA) was passed to ensure that depository institutions meet the credit needs of all portions of their communities, including low and moderate income neighborhoods. In accordance with CRA requirements, OCC examiners assess how well banks implement the law. In 1995, OCC and other bank regulators promulgated new CRA regulations that modified the examination requirements to better focus examiners on depository institution performance rather than process. The regulations went into effect for small banks on January 1, 1996.

The OIG reviewed OCC's implementation of the new examination requirements for small banks and found a need for improvement in three areas. OCC examiners did not fully adhere to bureau guidance in performing CRA-related examinations, or used inconsistent methodologies because the guidance was too general. This resulted in examination inconsistencies, raising questions about the reliability of reported results and making comparisons of bank performance more difficult. In addition, the OIG found numerous instances in which examiner working paper documentation did not fully support the results reported in OCC's Performance Evaluation of banks. Finally, OCC's quarterly examination schedules, designed to allow public comment, were not always accurate.

To strengthen the OCC examination process, the OIG recommended that: (1) examiners be made aware of areas in which they did not follow examination guidance, and that clarifying guidance be issued for areas in which inconsistencies were found; (2) bank Performance Evaluation reports prepared by examiners address all required items; (3) improvements be made to examiner working paper documentation; and (4) accurate quarterly examination schedules be published. OCC agreed to take corrective action to remedy the examination deficiencies found by the auditors. (Report #OIG-98-091)

Customs' Efforts to Prevent Narcotics Smuggling in Line Release Cargo

The OIG reviewed Customs' Line Release Program, a major commercial import processing method used to bring cargo into the United States, to determine the degree to which drug smugglers were taking advantage of the processing method. Customs' border drug interdiction efforts have received a great deal of criticism from members of Congress and the media due to a perceived decline in seizures, and Line Release has been labeled as one of the weak links that facilitates drug smuggling.

After reviewing the processing method and Customs' enforcement data, the OIG found that Customs did not know how often Line Release shipments had been used to smuggle drugs into the United States. The OIG reviewed every drug seizure made in cargo on the southwest border over a 3 year period and determined that, out of 103 cargo seizures, only 2 could be clearly associated with Line Release. While this finding indicated that Line Release may not be as vulnerable as surmised, Customs could neither provide this information nor project the likelihood that Line Release would be abused.

Customs' program measurement and evaluation criteria emphasized trade compliance rather than narcotics interdiction, and Customs' information systems did not contain the kind of data needed to assess Line Release. In addition, the information systems included inaccurate or unreliable data. The OIG recommended that Customs improve its Automated Commercial System databases and Treasury Enforcement Communications System (TECS) reports so that specific information about Line Release entries and the results of enforcement efforts can be captured and used to support compliance measurement and program evaluation.

The OIG suggested that without detailed and reliable enforcement data, Customs is less able to make good decisions about deploying its resources against the threat of narcotics smuggling. As a result, the number of narcotics seizures may be adversely impacted. Customs management agreed with the OIG's recommendations and is taking corrective action. (Report #OIG-98-085)

Use of Commercial Bank Lockboxes for Federal Income Tax Payments

In an effort to improve income tax remittance processing and the more timely deposit of tax receipts, IRS has been using commercial bank lockboxes to process Form 1040 income tax payments. Because it believes the use of lockboxes is beneficial to the Government, FMS has paid for this service for IRS. A major variable in FMS' decision was the assumption that lockbox banks process tax payments and deposit them in the Treasury cash account faster than IRS Service Centers, improving the Government's cash position and reducing both the amount of money that the Government needs to borrow to fund its operations and interest costs.

An OIG analysis indicates that the use of lockboxes may not be the most cost-effective method for collecting income tax payments. The contract period for the commercial bank lockbox arrangement expires in March 1999, and the Department needs to make an informed decision as to whether it should continue the present arrangement. Verifying that the lockbox program is the most cost-effective approach to processing tax payments is crucial to making this decision. As a result, the OIG recommended that the Department obtain and analyze relevant and reliable comparative cost data on all aspects of the program to identify the best option for processing future income tax payments and accompanying Forms 1040.

The OIG also identified opportunities for improving the Department's program management activities, which included updating the strategic plan, timely submitting security reviews and quarterly reports, promptly monitoring bank ratings, and rotating lockbox coordinator assignments. Security weaknesses were identified at 50 percent of the lockbox locations. FMS and IRS are the Treasury bureaus responsible for the income tax lockbox program. Bureau managers concurred with the OIG's findings and have already taken or planned corrective actions to address the report recommendations. (Report #OIG-98-097)

Secret Service Relocation Program

To improve travel and relocation services, the President signed the Federal Employee Travel Reform Act of 1996 on September 23, 1996. The provisions of the Act, which became effective on March 22, 1997, were designed to make relocation easier and less expensive for the Government by easing the processing of relocation claims. Due to potential cost savings under the Act, the OIG conducted an audit to determine whether Secret Service implemented the provisions involving reimbursable expenses for temporary quarters (TQ) and house hunting trips, as well as providing employees with sufficient notice of transfers.

Overall, the auditors found that Secret Service implemented procedures to address the cost savings measures. Employees were given sufficient notice of planned transfers, generally receiving 120 days notice in order to provide a reasonable amount of time to sell their homes. This reduced employees' need to participate in the Government's guaranteed home sale program, as well as the time required for TQ. Secret Service also briefed transferring employees on available reimbursement options under the relocation program.

Based on a review of Secret Service's relocation manual, the OIG recommended revisions to the guidelines on available reimbursement options. The revisions should prevent employee misunderstanding of the relocation program and lost opportunities for cost savings to the Government under the lump sum reimbursement method. Secret Service concurred with the OIG's recommendation and revised its manual to enhance the clarity and completeness of areas identified during the audit. (Report #OIG-98-108)

Cash Management Improvement Act of 1990

An OIG audit found that FMS' administration of the Cash Management Improvement Act of 1990 (CMIA) for California needed improvement. The CMIA is intended to minimize the financial costs associated with the timing of Federal funds transferred to individual states. Both states and the Federal Government may unduly benefit financially whenever there is a long period of time between the states' payment of program expenses and the transfer of Federal funds to the states.

FMS had not ensured California's compliance with CMIA provisions for calculating interest and funding programs. As a result, California underpaid \$2.2 million in interest to the Federal Government for FYs 1994 through 1996. Nearly \$1.5 million of the underpayment was due to California not remitting its interest liability on more than \$1 billion in Federal grants provided annually for program administrative costs. Over \$700,000 was underpaid because California used improper funding procedures for administrative costs destined for capital outlay projects. Federal funds sometimes remained in California's account for several years before being paid out to vendors and contractors.

FMS officials also had decided to exempt California from calculating interest on all administrative costs beginning in FY 1998. If implemented, this decision would not comply with the CMIA because FMS had not adequately ensured that neither the Federal Government nor the state would suffer financially. The OIG provided FMS and

California with an alternative approach for calculating the net interest on administrative costs. Both FMS and California generally agreed that neither the Federal Government nor the state would suffer financially by following the suggested approach. The alternative approach will be included in California's Treasury-State Agreement.

The OIG made several recommendations to improve FMS' administration of the CMIA for California, including that FMS require California to remit the \$2.2 million interest liability identified to the Federal Government. FMS concurred with the OIG's recommendations and initiated corrective action. California generally agreed with the audit results and will include the \$2.2 million interest liability as a prior period adjustment in its annual CMIA report to FMS. (Report #OIG-98-112)

FMS Administration of the Debt Collection Improvement Act

The OIG evaluated FMS' processes for planning and managing the development of a new information technology (IT) system for recovering delinquent debt authorized by the Debt Collection Improvement Act of 1996 (DCIA). The audit disclosed that, due to an ineffective IT strategy, the Government will not recover delinquent Federal non-tax debt and child support payments as quickly as Congress expected. FMS planned to replace its existing system, the Interim Treasury Offset Program (ITOP), with the Grand Treasury Offset Program (GTOP) in order to implement DCIA provisions. However, due to shortcomings in the planning and managing of GTOP's development, the system was not operational and its future was unknown.

By the conclusion of the audit, FMS had taken positive steps toward improving debt collection, developing a strategy that identified detailed performance tasks needed to offset payments, along with assigned milestones. However, FMS' strategy was to divide its efforts between enhancing ITOP and evaluating GTOP's viability, while simultaneously defining business requirements. While the ITOP enhancements, which would increase FMS' debt database, were a step toward recovering delinquent debt, FMS will have no assurance that either GTOP or ITOP will efficiently and effectively process the DCIA offset provisions until all business requirements are defined. The OIG made five recommendations to assist FMS in implementing an automated system that will effectively recover delinquent debts. FMS agreed to all of the recommendations and has developed plans for their implementation. (Report #OIG-98-110)

Revenue Protection Strategies

■ GAO identified filing fraud as one of four high-risk areas facing IRS. In an effort to combat filing fraud, Congress passed legislation in 1996 to help IRS more effectively deal with questionable credits and deductions by using math error procedures. As a result, IRS can disallow questionable credits or deductions during the processing of returns when required Taxpayer Identification Numbers (TINs), such as those that must be listed to claim personal exemptions, Earned Income Credit (EIC), or a dependent care credit, are missing or invalid. IRS successfully implemented several provisions of the math error legislation scheduled for 1997. Using the new math error authority, IRS

has increased tax or disallowed EIC for approximately 2.6 million returns with revenue protection issues, protecting over \$1 billion in revenue as of July 1997.

IRS internal auditors found that in 1997, IRS officials decided not to implement most of the provisions of the math error legislation affecting taxpayers and spouses with invalid Social Security Numbers (SSNs), due to time constraints. More than 814,000 taxpayers filed Tax Year 1996 returns with invalid primary SSNs, and over 182,000 were allowed to claim more than \$335 million in EIC. Plans to work these types of cases in 1998 were dropped when the necessary resources could not be funded.

Nearly 1.2 million revenue protection math error tax and EIC adjustments had been abated through July 1997. In most of the cases, taxpayers provided correct name and TIN information after their returns were adjusted during processing and they received math error notices from IRS. These unproductive cases represent substantial taxpayer burden and wasted resources. IRS can improve productivity and resource utilization by helping taxpayers to improve name and SSN accuracy on the returns they file; identifying and working the most productive cases from those that are received; and enhancing error resolution research capabilities to correct more returns without taxpayer contact. In addition, these improvements could allow IRS to work some invalid primary and secondary TIN cases.

The internal auditors found that computer programs did not always validate TINs or correctly identify problem TIN cases for correction, and prevented taxpayer notices from being complete. Audit tests also identified errors by return processing employees, which allowed some taxpayers to receive improper credits and deductions, and caused incorrect and confusing taxpayer notices. Finally, a review of taxpayer responses showed that errors were not always correctly resolved or adjusted by Customer Service or Adjustments employees. Although errors are to be expected during the first year of a new program, corrective actions are necessary to ensure the mistakes are not repeated during subsequent filing periods.

The internal auditors recommended that the revenue protection math error program include full implementation of the math error legislation; an improved use of program resources applied to revenue protection cases; and more effective computer programming and processing procedures to detect, process, and resolve problem TIN cases. IRS management has planned or has taken corrective action to address the issues cited in the report. (IRS Report #083322)

■ The number of Individual Income Tax returns filed with a missing or incorrect SSN is growing by an average of 5 percent a year. A SSN is considered incorrect or invalid when a taxpayer files a return using a name that does not match IRS or Social Security Administration (SSA) records, a number that has not yet been assigned by SSA or that belongs to another individual, an impossible combination, or a temporary number assigned by IRS. The first time a taxpayer files an income tax return using an incorrect primary identification number, the refund is frozen, any EIC is disallowed, and a notice is sent to the taxpayer. If the discrepancy cannot be resolved, the return is recorded using the incorrect number or an IRS assigned number.

IRS successfully froze the refunds and disallowed the EIC of taxpayers filing returns using an incorrect primary identification number for the first time. However, taxpayers, who filed with an incorrect primary identification number used in a prior year, were not always properly notified, nor were their refunds and EIC always properly handled. IRS internal auditors recommended revising necessary computer programs and operating procedures to correct the problems. Management agreed with the recommendations and has taken appropriate corrective actions. (IRS Report #083105)

Protecting Taxpayer Rights

■ In a previous report covering four regional and twelve district offices, the IRS Inspection Service described an environment that used statistics in ways that created a competitive spirit, which concentrated on achieving goals and results without a corresponding measurement system focused on the appropriateness of case actions and an adherence to policy and procedures. This environment placed some taxpayers' rights at risk, and created a potentially inappropriate evaluative atmosphere for some IRS employees.

The current review, covering eleven district offices included in the prior report, found that IRS did not always properly exercise its seizure authority. Specifically, in 130 of 467 cases reviewed, one or more of the following conditions existed: (1) seizures took place despite information indicating a potential hardship on the taxpayer or third parties, demonstrated a lack of adequate concern for taxpayers' financial or medical status, or countermanded previous IRS commitments; (2) the value of assets seized was not commensurate with the resources required to execute the seizure, and the seizure had little or no impact on compliance; (3) reasonable attempts to contact the taxpayer or representative prior to the seizure were not made; (4) seizure alternatives either were available but not pursued, or were not investigated; (5) seizures were conducted even though the taxpayer questioned or may not have understood the tax assessment; and (6) legal requirements for notification, for waiting periods for conducting seizures or sales of property, for exempting tools of a trade, for approval of principal residence seizures, or for statute expiration were not met.

In 221 of the remaining 337 cases, the Collection Field function properly exercised its seizure authority, and generally followed prescribed legal and procedural requirements. However, in the final 116 cases, although the seizure may have been warranted based on the taxpayer's account and case history, certain procedural requirements for reissuing notices of intent to levy, warning of enforcement action, and establishing minimum bid were not met.

The results of the seizure case reviews suggest a correlation between the environment described in the earlier report and the inappropriate or unwarranted use of seizure authority. This is particularly apparent when viewing cases where the taxpayer was experiencing financial or medical difficulties, or where he or she was in the process of obtaining funds to help satisfy the liability. In these instances, it is difficult to draw a conclusion other than the seizure demonstrated insensitivity to the taxpayer's current situation and was conducted to enhance statistical measures. A contributing component is the fact that the group manager is both the key control for ensuring proper use of seizure authority (by virtue of the seizure approval process) and charged

with managing inventory and delivering collection programs in an environment driven in part by statistical measures. These two factors can lead to decisions that may not fully protect taxpayers or be in the best interest of tax administration.

IRS' actions regarding inappropriate or unwarranted seizures demonstrate that the use of seizure authority requires heightened oversight and scrutiny in order to rectify serious program deficiencies. In addition, an adherence to legal requirements is essential to protecting both taxpayers' rights and IRS' interests. The failure to do so can lead to invalid seizures, which may compel IRS to return proceeds or subject IRS to suits for civil damages.

In response to the prior report, IRS raised the level of seizure approval from the group manager to the division chief, and broadened the type of seizure requiring district director approval. As a result of the current review, the internal auditors included additional recommendations to improve the use of seizure authority and to ensure that both taxpayers' rights and IRS' interests are protected and maximized. Collection management, in concert with Counsel, will review all open seizures and those closed within the last 9 months to ensure that any legal defects are evaluated for possible taxpayer restitution. IRS management agreed with the auditors' recommendations. (IRS Report #084407)

■ The Examination Division violated IRS policy by setting production goals and evaluating group managers and employees using enforcement statistics. The Division's corporate measures focused primarily on enforcement statistics, which fostered the improper use of those statistics in the regions and districts, and led to an environment at the group manager and employee levels that placed emphasis on revenue and other statistical goals.

Seven of Examination's 12 FY 1997 corporate measures involved recommended dollars (proposed deficiencies). The remaining five measures related to cycle time, dollars collected, and average open years. No corporate measures addressed case quality, treatment of taxpayers, or the proper amount of tax assessed. The measures for FY 1996 were similar, and the achievement of the goals was cited in the self-assessments and evaluations of numerous branch chiefs, division chiefs, and executives.

The IRS Inspection Service found that 74 percent of the group manager evaluations and 4 percent of employee evaluations contained references to enforcement statistics. The evaluations cited dollars per hour, hours per return, dollars recommended, and no-change rates. Although citing statistics and goals in evaluations for these management levels is not necessarily prohibited by IRS' Policy Statement P-1-20, doing so may lead to an environment at the group level where enforcement results are inappropriately emphasized.

IRS has developed numerous documents to explain and provide guidance on P-1-20, which prohibits IRS managers from using tax enforcement statistics to evaluate an enforcement officer or to impose or suggest production quotas or goals. However,

the documents include gaps and inconsistencies that require managers to interpret and apply the policy. No single document clearly explains the proper application and use of P-1-20.

The internal auditors found that districts routinely communicated goals and enforcement statistics to group managers and employees in all 12 districts through newsletters, monthly reports of Examination activity, group meetings, and similar methods. The statistics often referenced how group managers and employees were performing in relation to district or group goals. IRS has terminated the ranking of regional and district offices, and Examination's FY 1998 performance measures do not include enforcement results. In addition, IRS has formed an executive task force to develop balanced performance measures that will promote quality, customer service, taxpayer rights, and productivity. Guidance on P-1-20 and the Taxpayer Bill of Rights (TBOR) will be presented in a new Internal Revenue Manual entitled "Managing Statistics" and in a training program for all managers at the national, regional, and district levels. The self-certification process mandated by TBOR has been extended to Examination, and requires district management to certify that it is not using examination statistics in any way that is prohibited by law or policy statement. (IRS Report #084303)

Secret Service Provides Valuable Assistance to Other Agencies

The Office of Inspection provides valuable assistance to Secret Service in a number of ways. The Office of Inspection is comprised of senior level personnel, who provide a wealth of knowledge and experience, and who, as inspectors, are afforded a comprehensive view of Secret Service. This perspective is unique within the agency. While each operational unit focuses on its piece of the agency's mission, inspection personnel have the ability to observe Secret Service's work in its totality. Through this exposure, inspectors develop a better perspective on Secret Service's role. The Director and staff rely on the expertise of inspection personnel to provide objective and unbiased observations of Secret Service operations and management.

The inspection personnel's expertise is used to conduct reviews of offices, programs, and management; and to provide leadership for both protective and investigative missions. Each review that is conducted either confirms the work of an office or provides the direction needed for improvement. Reviews include reporting on the status of strategic initiatives. It is important that this information be compiled so that it can be used to improve processes. In addition to looking for innovative practices that can be applied elsewhere within Secret Service, inspection personnel also conduct liaison visits with other law enforcement and Government entities (as well as with individuals in the private sector, including community leaders and financial institutions' staff) to affirm the strength of these relationships.

Secret Service provides valuable assistance to other agencies with the polygraph program, through which polygraphs are conducted at field locations throughout the United States. During the 6-month period ending September 30, 1998,

the Office of Inspection received five requests for polygraph assistance. Four requests were approved and, to date, two have been conducted. (Secret Service Inspection)

MANAGEMENT ASSESSMENTS

FMS Strategic Planning Process

The OIG assessed FMS' strategic planning process and its consistency with the Results Act. Specific emphasis was placed on the extent to which FMS' strategic planning process addressed new legislative mandates, such as the CFO Act, GMRA, and the DCIA.

FMS' strategic planning process has not produced performance results consistent with key customer and stakeholder expectations, and has suffered from significant inadequacies. For example, FMS has no cohesive internal policies and procedures for strategic planning; and the lack of systematic and objective front-end risk assessment has resulted in ineffective barrier detection, and policy and strategy objectives that are currently too ambitious. In addition, there is a clear disconnect between strategic and tactical level planning; and the process lacks effective feedback and progress reporting, which is exacerbated by the lack of an automated Management Information System.

Although FMS' strategic planning process has acknowledged problems, effective strategies and accurate timelines for resolving those problems have not been adequately determined. As a result, the implementation of legislative mandates, such as the CFO Act, GMRA, and the DCIA, has been too ambitious. In addition, related software development efforts have experienced delays and caused significant resource allocation problems for other Federal program agencies. Major FMS customers, including SSA and the Veterans' Administration, feel that their concerns have not been adequately addressed by FMS' strategic planning process. FMS involved its customers in the strategic planning process and actively solicited their comments regarding the FMS strategic plan. However, in some cases, FMS could not fully accommodate the requests of customer agencies for various business reasons.

FMS has highly professional staff and has made many incremental improvements in traditional mission areas. The OIG's report also identifies several important underpinnings of the present FMS strategic planning process, such as fledgling baseline strategic related plans and initiatives, which can continue to contribute to a successful strategic planning process. However, reaching FMS' goal of ensuring "world class" service and improved implementation of major legislative mandates demands a more effective and innovative strategic planning process. To do so, FMS should develop current, concise planning policies and procedures; and align tactical level plans with its strategic plan.

The OIG recognizes that FMS management recently changed, providing both an opportunity and a necessity to improve the strategic planning process' ability to address the bureau's mission and mandates. In addition, some new initiatives have already begun. Suggestions designed to advance FMS initiatives also are included in the OIG's report. (Report #OIG-97-E06).

ATF Inspections

During the 6-month period ending September 30, 1998, the ATF Office of Inspection conducted 6 full-scale inspections. The inspections, which involved the review of 60 separate office locations, included areas such as personnel, training, office security, internal controls, and a qualitative and quantitative analysis of investigations and inspections. In addition, all employees were interviewed regarding morale, supervision, and work-related problems.

Deficiencies and/or variances identified during the inspections were discussed with affected managers at the closing conferences and documented in the final inspection reports, which were disseminated to all affected ATF managers. Inspection team leaders briefed the Director of ATF after each inspection. (ATF Inspection)

Customs Inspections

The Customs Office of Internal Affairs conducts various types of reviews, including comprehensive inspections, spot checks, assessments, and financial audits of undercover operations. The reviews gauge the effectiveness and efficiency of the offices involved and verify the implementation of strategic plans and compliance with policy and established operating procedures. During the 6-month period ending September 30, 1998, the Customs Office of Internal Affairs conducted ten comprehensive inspections, including six Special Agent in Charge offices and four port locations.

Office of Internal Affairs inspections are conducted by a multidisciplinary team of Internal Affairs staff and field managers from peer organizations, who also are known as field inspectors. Typically senior level personnel, the field inspectors participate in a training week prior to the inspection, during which the team reviews the results of research and analysis conducted on the location to be inspected. Based on the review, specific areas are targeted for on-site inspection. Having field inspectors, who possess current operational knowledge, review functions in which they have expertise enhances the credibility of the inspections. In addition, the field inspectors have an opportunity to observe a variety of management styles and operational procedures. This process has been mutually enriching and has broadened the perspective of those associated with it. A program of interim spot check inspections was initiated as a complement to the comprehensive inspections. (Customs Internal Affairs)

Secret Service Inspections

Established on July 1, 1950, the Secret Service Office of Inspection is charged with reviewing policies, procedures, and their implementation in the Secret Service. The Office of Inspection's programs include organizational analysis and cover areas such as personnel, office security, communications, training, management, and supervision. The Office of Inspection also serves as the "Internal Affairs" component within the Secret Service.

The Office of Inspection conducts inspections of Secret Service offices and divisions on 2 and 3 year cycles. The inspection interval depends upon the mission of the office to be inspected. Offices with protective responsibilities are reviewed every 2 years. During these inspections, every employee is afforded a confidential interview to assess the quality of management and supervision within Secret Service. During the 6-month period ending September 30, 1998, the Office of Inspection conducted 32 reviews to include inspections of field offices, resident offices, resident agencies, and Headquarters divisions; re-inspections; and unannounced audits.

All of the field offices, divisions, and resident offices that were inspected are in compliance with Secret Service policies and procedures, with the exception of minor discrepancies that were brought to the attention of the agents in charge and corrected during the course of the inspections. Offices that previously had received recommendations were re-inspected and found to be in compliance. In addition, the unannounced audits did not reveal any misuse of Government funds or unauthorized transactions. (Secret Service Inspection)

INFORMATION TECHNOLOGY OVERSIGHT

IRS Modernization

Modernization is the centerpiece of IRS efforts to reengineer business processes, information systems, and organizational culture. Since 1988, IRS has invested between \$3 and \$4 billion to create an environment where taxpayer accounts are updated rapidly and taxpayer information is readily available to IRS employees in order to respond to taxpayer inquiries. The IRS Inspection Service and others have provided extensive audit coverage of the costs and difficulties associated with modernizing IRS information systems. The Inspection Service still considers Modernization a Federal Managers' Financial Integrity Act material weakness and categorizes Modernization control weaknesses as "Program Management," "Infrastructure," and "Financial Management."

Since FY 1991, the Inspection Service has issued 103 reports relating to Modernization initiatives, including five in the second half of FY 1998. Each of these reports has been made available to the Department for its use in facilitating oversight. In addition, IRS internal auditors have another two Modernization reviews in various stages of completion. All reports issued in the 6 months ending September 30, 1998 are summarized below.

■ EFTPS, the Government's electronic payment processing system, was implemented on November 5, 1996 at the Memphis Service Center. IRS management has made significant progress in implementing the EFTPS production system and enrolling the 1.2 million taxpayers mandated to pay electronically. An internal audit review showed that tested payments were processed accurately, efforts were largely effective, and the processing system was successfully transferred to new computer hardware.

The internal auditors found that the current system could timely process the payment volumes expected in the near term. However, the risk that processing will not be timely and accurate increases significantly as additional processing requirements and volumes are added. For example, timely processing may not be possible when a peak day brings in 3 million payments. Previous requirements and procedures did not ensure that payment reversals, which are necessary to correct erroneous or duplicate payments, were appropriate before funds were removed from the Treasury. In addition, the existing EFTPS Business Resumption Plan had not been kept up-to-date, procedures for synchronizing the back-up system with the primary system had not been developed, and the back-up system's system audit trail was disabled.

Current-processing procedures caused unnecessary taxpayer and reporting agent burden, and increased the risk that IRS or financial agent personnel could make unauthorized disclosures of taxpayer information. Furthermore, promoting individual payments could negatively impact efforts to enroll mandated business taxpayers and generate significant numbers of questions seeking general information. Internal audit analyses of payment data resulted in information that IRS management used to improve the accuracy of systemic data and identify external sources of errors. IRS management agreed with each of the conditions and related recommendations, and initiated appropriate corrective action. (IRS Report #083008)

■ The Integration Support Contract (ISC) was awarded in 1991 to support IRS' tax systems modernization efforts. IRS' modernization program has continually changed focus since its inception, and this dynamic environment has made it difficult to properly administer and manage the ISC. In an effort to establish greater control of and direction for the modernization program, IRS created the Government Program Management Office (GPMO).

IRS internal auditors determined that Contracting Officer's Technical Representatives (COTRs) had not implemented the established methodology to determine the actual hours worked by contractor personnel. In addition, IRS did not receive supporting documentation showing actual expenses incurred, and inadequate separation of duties existed in the process of evaluating the vendor's performance for determination of the award fee amount. Although the internal auditors did not identify any integrity situations in the evaluation process, this lack of separation gives the appearance of a conflict of interest.

During the review, the internal auditors found that the Director of GPMO provided the assessment of the vendor's overall performance and was designated as the Fee Determination Official (FDO), who is responsible for determining the final award fee amount. Different individuals should perform these two responsibilities. The FDO should be uninvolved in the evaluation process and, therefore, able to provide an unbiased opinion on the amount of award fee the vendor earned based on the compiled evaluation. This independent assessment helps to ensure the integrity of the overall award process.

The internal auditors also found that IRS was not independently tracking Government Furnished Equipment/Government Furnished Information (GFE/GFI) provided to the vendor under the ISC. Rather than maintaining a list of GFE/GFI, the COTRs relied on the vendor to maintain its own listing of GFE/GFI, which had been acquired over the life of the contract. Furthermore, the COTRs did not perform a validation of the vendor's list to ensure its accuracy and completeness. Without an independent accounting of GFE/GFI, the potential exists for the loss of Government equipment and the improper disclosure of sensitive IRS information. IRS management agreed with the facts cited in the report and has taken appropriate corrective action. (IRS Report #084803)

■ The Federally Funded Research and Development Center Contract (FFRDC), which provides IRS with research and development assistance to facilitate system development and integration activities, was awarded in March 1993 as a cost-plus-fixed fee contract. Procedures for voucher processing did not ensure that direct labor costs were properly verified prior to payment. The only verification consisted of a comparison of various contractor provided summary documents. None of the summary documents included source documentation, and no in-depth reviews or independent verifications were performed. An internal audit review of a sample of direct labor hour charges did not identify any significant overcharges.

To ensure that charges for direct labor hours are accurate, the internal auditors recommended that procedures be revised to require a more in-depth analysis of contractor submitted direct labor cost. IRS management agreed to establish a process for the periodic selection of a sample from the Job Status Report to determine whether the actual billed hourly rate equals the contracted hourly rate. (IRS Report #083401)

■ The Service Center Mainframe Consolidation (SCMC) project's goal of consolidating ten service centers' mainframe operations into two computing centers is a very complex task that requires extensive coordination and effort by several organizations and IRS functions. Although the project is making significant progress towards its goal, management must continue to address numerous risks, including staffing, disaster recovery, and security certification.

Critical staffing shortages continue to exist at the computing centers. The internal auditors recommended that management relocate adequate staff, where needed, and develop a staffing contingency plan. In response, management defined residual staffing levels at the service centers and continues to evaluate recruiting options. In addition, the SCMC project either had not funded or defined disaster recovery requirements, security certification and accreditation activities, and fallback contingencies should the service centers need to restore their prior mainframe environment. Management agreed to define the disaster recovery strategy, fund security certification and accreditation activities, and develop a fallback plan involving minimal data loss.

Other issues developed by the auditors included testing plans that did not include full, sustained functionality tests of the computing centers; project office controls

over critical tasks and communications to the field which needed improvement; the fact that the GPMO was not providing oversight to the project as originally planned; and controls over automation readiness and augmentation activities, and the administration of the Service Center Support Systems contract that needed improvement. Management responded by creating a revised schedule and enhanced proposed testing methodology; by appointing a Business Project Manager and establishing a web site; by requiring the vendor to outsource a major portion of its program management activities; and by agreeing to obtain resource commitments from national office and service center directors for completion of augmentation activities, and to assign a full-time COTR and to provide resources to define and validate delivery order requirements. (IRS Report #085812)

■ IRS has initiated efforts to acquire a PRIME contractor to modernize its complex information systems. In order to manage this major acquisition, IRS developed an overall acquisition plan and a security plan, and drafted a formal source selection plan (SSP). Although IRS has taken measures to prepare for the acquisition, IRS internal auditors believed that additional steps were needed in order for IRS to be fully prepared for the bid evaluation phase.

The auditors recommended that, prior to receipt of the contractors' proposals, IRS should finalize the SSP and identify all individuals involved in the bid evaluation process. In addition, IRS needed to ensure that the roles of IRS and non-IRS personnel are clearly defined, and that the SSP's evaluation criteria is consistent with the final Request for Proposal and the approved acquisition plan. Once the SSP is finalized, the source selection authority needs to approve the document. IRS management agreed with the facts cited in the report and is taking appropriate corrective action. (IRS Report #084901)

IRS Y2K Conversion Efforts

The upcoming century date change is one of the most pervasive problems facing the information systems community today. IRS has divided its date conversion efforts into five phases to assure that all of its tax and administrative systems are capable of correctly handling date information in this century and the next. During Phase III, which was scheduled for implementation in January 1998, Information Systems converted those application components that comprise the bulk of IRS' tax processing systems.

An internal audit review of the programming and testing for Phase III showed that a majority of the date fields and components were successfully modified to process a four-digit year. However, the auditors identified a significant risk to IRS in that computer source code components were being designated as Y2K compliant when, in fact, they needed additional work to meet established IRS standards and guidelines for Y2K compliance. As a result, more aggressive actions by Information Systems management were needed to assure that all necessary Y2K changes were made.

To avoid unexpected disruptions in the operations of computer systems after January 1, 2000, IRS must improve the quality of its Y2K conversion efforts by identifying and correcting errors in completed components, clarifying and enforcing programming standards, and supplementing its systems testing process with code-level inspections. Information Systems management must strengthen its oversight and internal controls to assure the accuracy and completeness of IRS' applications inventory. In addition, Information Systems managers at all levels must be more proactive in validating the completeness of Y2K programming. IRS management agreed with the recommendations and initiated appropriate corrective action. (IRS Report #083605)

CONTRACT OVERSIGHT

\$3.4 Million in Contract Costs Questioned

All Treasury bureau requests for preaward, cost incurred, and other contract audits are referred to the OIG. The OIG either performs the audits, refers the audits to the Defense Contract Audit Agency (DCAA) and other cognizant Government audit agencies, or contracts with an Independent Public Accountant.

As shown on the following page, the OIG performed or contracted for a total of 27 contract audits, which questioned \$3.4 million in Treasury contractor costs. Contracting officers agreed to savings and disallowed costs of over \$4.7 million, including amounts which were questioned prior to March 31, 1998. An additional \$11.3 million in potential monetary benefits, including amounts which were questioned prior to March 31, 1998, are awaiting completion of negotiations with the contractors.

Preaward audits, which provide information on whether pricing proposals are fair and reasonable, are used by contracting officers in negotiating contracts. During a prior period, DCAA auditors questioned \$13,537,625 of costs included in a \$57,818,395 proposal submitted to Customs for the P-3 Airborne Early Warning Program. DCAA also identified \$3,916,741 of unresolved costs and \$828,408 of unsupported costs. After negotiations, Customs contracting officials sustained \$4,212,876 of the questioned and unsupported costs.

The audit disclosed questioned material related accounts, indirect costs, freight-in/receiving, logistics support, and warranty costs. The majority of questioned material related accounts are due to expressly unallowable contingency costs, as prescribed in Federal Acquisition Regulation Subpart 31.205-7(b); risk factors added to intercompany transfers; and subcontracts. While the unsupported costs consisted entirely of material related accounts, the unresolved costs were attributed to costs associated with assist audits pending completion by another DCAA branch office. (Report #OIG-97-130)

Incurring costs audits are used to determine the allowability of direct costs and indirect cost rates under flexibly priced contracts, and to establish audit determined indirect rates to facilitate contract close-out. During the period, DCAA performed an audit of a BEP contractor's incurred costs submission. The audit disclosed questioned overhead and General and Administrative (G&A) rates, which generated \$504,866 of questioned costs related to two BEP contracts for an interim currency inspection imaging system. The questioned overhead and G&A rates were attributed to questioned and expressly unallowable overhead and G&A expenses. Final acceptance of the questioned amount for the periods included in the audit report has not yet been determined. (Report #OIG-98-101)

The OIG and the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service carry out many activities designed to protect the integrity of the Department and its bureaus. These activities range from preventive measures such as integrity awareness programs to investigations of civil and criminal fraud. Because of the sensitive nature of much of the Department's work, this is a high priority area for the OIG and the Offices of Internal Affairs and Inspection.

INTEGRITY AWARENESS AND DETERRENCE

Integrity Awareness: A High Priority

Integrity awareness remains a high priority for Treasury internal investigators. During the last 6 months, the OIG and Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service gave 497 presentations to over 14,414 employees. Highlights of these programs follow:

- IRS Inspection Service auditors and investigators routinely make presentations to IRS personnel that are designed to heighten their awareness of ethics and integrity. These presentations address various topics and are tailored to the particular needs of the audience. For the 6-month period ending September 30, 430 presentations were made to 12,556 employees.
- Customs' Office of Internal Affairs special agents conduct yearly integrity and bribery awareness presentations. In the past 6 months, Internal Affairs agents made 31 presentations to 744 employees.
- ATF Inspection special agents and managers present integrity awareness briefings at conferences, meetings, and training classes throughout the country. During the 6-month period, Inspection made seven integrity awareness presentations to more than 248 criminal investigators, inspectors, analysts, managers, supervisors, and administrative personnel.
- Secret Service's Office of Inspection works closely with all elements of the Secret Service to foster the highest standards of integrity and ethics. To this end, inspectors conducted integrity and ethics briefings for 638 Secret Service employees, including criminal investigator recruits, experienced criminal investigators, special officers, Uniformed Division recruits and officers, and administrative personnel.
- The OIG gave 29 briefings to a total of 228 employees. (OIG and Office of Internal Affairs and Inspection)

Departmental Workers' Compensation Costs Reduced

In 1996 and 1997, based upon recommendations made in an OIG Management Implication Report, the Department reduced its FECA costs from 1995 levels by over \$855,000. Based upon current year projections, savings for FY 1998 are estimated at \$2 million, representing a nearly 3 percent reduction in costs from 1995.

The OIG made eleven specific recommendation to reduce the Department's FECA (commonly known as workers' compensation) costs. Nine of the recommendations were accepted in their entirety, and two remain under consideration by the Department. By adopting the OIG's recommendations, Treasury has begun to focus more attention on the FECA program and its cost to the Department in terms of both personnel and budget. (OIG)

IRS Program Activities Related to Tax-Exempt Organizations

The OIG performed a review of IRS program activities related to organizations that have tax-exempt status under Section 501(c) of the Internal Revenue Code. These include certain charitable, educational, religious, and social welfare organizations; business leagues; and social clubs. The OIG review was coordinated with a Congressional Joint Committee on Taxation investigation of IRS to determine whether IRS selection of tax-exempt organizations for audit had been politically motivated.

The review analyzed available information to assess IRS management's initiatives and selection criteria for related tax audits. The resulting report provided background information regarding the IRS Exempt Organization program and identified potential areas of concern for consideration by IRS management. (OIG)

Customs Internal Affairs investigation Into Allegations of Misconduct by a Customs Official

In response to a letter from a United States Senator, the OIG performed a review of a Customs Internal Affairs investigation into allegations of misconduct by a Customs official. The review indicated that the special agent assigned to the case had the knowledge, skills, and ability to conduct the investigation; and that the investigation was properly planned and executed. Although not all exhibits listed within the Internal Affairs Report of Investigation were prepared in a timely manner, attached to the report, or complete, the outcome of the investigation was not adversely affected.

The review found no indication that disciplinary actions taken with regard to the Customs official were improper. Although the review raised concerns that a Customs official was placed on excused absence (leave with pay) for an indefinite period, it concluded that Customs' rationale for granting the excused absence was reasonable. Nevertheless, the review led to a recommendation for uniform bureau-wide procedures regarding the use of excused absence, including appropriate time frames and mechanisms for monitoring the continuance of personnel on excused absence. (OIG)

CRIMINAL INVESTIGATIONS

Criminal investigations by the OIG and the Offices of Internal Affairs and Inspection at ATF, Customs, IRS, and Secret Service include investigations of procurement fraud; assaults and threats against employees; bribery; allegations of criminal acts, such as embezzlement and theft, by employees; referrals from national integrity projects; and allegations of corruption against IRS by practitioners, such as attorneys and Certified Public Accountants (CPAs).

Three Individuals Convicted for Conspiracy, Extortion, and Mail Fraud

On June 17, 1998, three individuals, including a former Secret Service special agent, were convicted for conspiracy, extortion, and mail fraud. Two of the defendants, including the former special agent, also were convicted of tax evasion. A joint investigation by the OIG, Port Authority of New York, New Jersey OIG, and IRS Inspection Service revealed that the three individuals schemed to obtain cash payments from a businessman in exchange for arranging for the businessman to obtain a lease to run an employee cafeteria at a Port Authority facility. Sentencing is pending. (OIG and IRS Inspection)

ATF Special Agent Pleads Guilty to Conspiracy and Bribery

An ATF special agent, who pled guilty to conspiracy and bribing a public official, was sentenced to 41 months of incarceration and 3 years of supervised release. The special agent had participated in a conspiracy which resulted in over 100 illegal aliens being authorized permanent residence status on their alien passports (the final step before receiving a green card.) However, because the activities of the special agent and his co-conspirators had been monitored from the outset, green cards were never actually issued.

ATF investigators had been alerted to the possibility of illegal activity as a result of an administrative investigation into the special agent's financial affairs, which had been initiated due to an allegation that the special agent appeared to be living beyond his means. Six months later, the special agent and a friend who was an attorney approached an undercover INS agent in an attempt to draw the INS agent into their immigration fraud conspiracy.

A joint investigation by the Department of Justice OIG, INS, and ATF Office of Inspection revealed that each of the alien families paid at least \$10,000 in exchange for fraudulently obtaining immigration benefits. Employment-based immigrant visa slots also were sold. The special agent received approximately \$35,800 in bribes for his involvement. The INS agent, while working in an undercover capacity, received over \$82,000 in bribes during the investigation, including a \$4,100 bribe from the special agent. The investigation involved extensive surveillance by ATF and culminated in

numerous Federal search warrants, two of which were obtained by ATF. The special agent resigned from ATF at the conclusion of the investigation. (ATF Inspection)

Former Customs Inspector Sentenced for Bribery

In June 1998, a former Customs inspector received a prison term of 9 years, a \$2,500 fine, and 3 years of supervised release upon completion of his prison sentence. An Internal Affairs investigation had revealed that the Customs inspector was involved in bribery and a narcotics smuggling conspiracy. The Customs inspector's co-defendant, who is not a Customs employee, pled guilty to conspiring to import cocaine and was sentenced to 5 years and 10 months of imprisonment, 4 years of supervised release upon completion of his prison sentence, and 250 hours of community service. (Customs Internal Affairs)

Individuals Sentenced for Bribery and Smuggling

Two individuals, who are not Customs employees, were sentenced on May 18, 1998, following a long-term undercover investigation by Customs Internal Affairs into the attempted bribery of Customs officers and smuggling of counterfeit merchandise into the United States. The first individual was sentenced to 7 months in prison, 5 months at a community correctional center, and 3 years of supervised probation; while the second individual was sentenced to 5 months in prison, 5 months at a community correctional center, and 3 years of supervised probation. The investigation also resulted in the indictment of nine other defendants, seven of whom subsequently pled guilty. (Customs Internal Affairs)

Former Customs Inspector Sentenced for Social Security Fraud

On May 18, 1998, a former Customs inspector and his wife, who had been convicted for fraudulently using a Social Security card, each received a sentence of 1 year of probation, 50 hours of community service, and a prohibition from Federal employment. The inspector resigned from Customs following an Internal Affairs investigation into his wife's fraudulent issuance of social security cards, while she was an employee of SSA, in order to establish a good credit rating and obtain a \$208,050 residential loan. (Customs Internal Affairs)

Former Customs Employee Sentenced for Disclosing Confidential Information

On June 10, 1998, a former Customs employee, who had worked in an Office of Investigations' Special Agent in Charge office, was sentenced to 1 year of probation and 6 months of house arrest. After an applicant for employment called the Office of Investigations to complain that her long distance service had been switched without her knowledge, consent, or authorization, Customs Internal Affairs determined that the Office of Investigations employee had changed the long distance service of four job applicants, using confidential information from their employment applications. The employee admitted to this activity in an interview on April 8, 1998, and resigned from

Customs on April 25. On May 14, 1998, the former employee agreed to plead guilty to disclosing confidential information. (Customs Internal Affairs)

Individuals Sentenced for Bribery and Smuggling

On June 16, 1998, two individuals, who are not Customs employees, were sentenced for their roles in attempted bribery and smuggling of counterfeit merchandise into the United States from Korea. The first individual was sentenced to 4 months of imprisonment, 4 months of home detention, and 3 years of supervised probation, and was fined \$3,000. The second individual was sentenced to 3 months in prison, 3 months of home detention, and 3 years of supervised probation. (Customs Internal Affairs)

Customs Foreign Service National Investigator Terminated from Employment

A Customs Internal Affairs investigation into the past illegal activities of a foreign service national investigator assigned to an Office of the Senior Customs Representative (SCR) resulted in the investigator's termination from employment on April 24, 1998. In addition, the investigator was barred from any future employment by the United States Government. The Internal Affairs investigation established that, prior to being hired by Customs, the investigator illegally lived and worked in the United States; used the SSN of another individual; made false statements on numerous official documents; and failed to file and pay United States income taxes and to pay a tax levy issued by IRS. In addition, while employed by the SCR, the investigator routinely queried the names of associates, traveling companions, and others in TECS; and had questionable business associations with individuals that placed him in conflict with his official duties. (Customs Internal Affairs)

Former Customs Employee Sentenced for Embezzlement

In June 1998, a former Customs employee was sentenced to 4 years of probation and fined \$1,000 for embezzlement and stealing. The sentence was the result of an Internal Affairs investigation into allegations that the former employee stole merchandise from Customs custody. (Customs Internal Affairs)

IRS Employee and Three Individuals Plead Guilty to Fraudulent Refund Scheme

An IRS employee pled guilty to false, fictitious, or fraudulent claims, along with fraud and related activity in connection with computers. The IRS employee's three co-conspirators pled guilty to conspiring to defraud the Government with respect to claims. Sentencing is pending for all four individuals.

An investigation was initiated after another IRS employee reported that IRS' Criminal Investigation Branch had identified a questionable refund scheme. All of the returns involved appeared to have common authorship; most were filed after April 15th; and approximately 50 percent had two addresses, one a rented mailbox and the other a residence, that were controlled by an IRS employee. Integrated Data Retrieval

System (IDRS) audit trails indicated that the IRS employee had accessed the primary dependent's SSNs on all of the returns. (IDRS is an IRS computer system for maintaining and retrieving tax records that enables IRS employees to obtain taxpayer return information through specialized command codes.)

Check copies showed that four of the refunds addressed to the IRS employee's residence were cashed by an individual who is not an employee of IRS. In addition, a check addressed to the individual who is not an employee of IRS was cashed by a second individual. All five of the above mentioned checks were cashed at the same check-cashing outlet, which provided records, including a photograph of one of the suspects.

A plain-view observation of the IRS employee's vehicle revealed a key in the ashtray with a key holder that contained the name of a mailbox rental company. Mailbox rental records showed that the IRS employee rented the mailbox on April 15th for a period of 6 months. During a monitored call placed by employees of the mailbox rental company, the IRS employee acknowledged that one of the returns addressed to the mailbox was in the name of an acquaintance of her boyfriend. The IRS employee further indicated that she would supply a list of names of individuals who were authorized to receive mail at the mailbox.

Arrest and search warrants were executed at five locations. The IRS employee's boyfriend was one of those arrested as numerous false identification cards with his photograph, including one used to cash one of the above mentioned checks, were found. The scheme claimed false refunds in excess of \$150,000. While most of the fraudulent refund checks were stopped, approximately \$30,000 in refund checks were issued. (IRS Inspection)

Former IRS Employee Pleads Guilty to Altering Tax Accounts and Browsing

Sentencing is pending for a former IRS employee who pled guilty to fraud and related activity in connection with computers. An investigation was initiated as the result of an Electronic Audit Research Log (EARL) review, which revealed that the former employee may have improperly accessed IDRS to research sixteen accounts in the names of relatives and a neighbor. (EARL is a program that uses IDRS' tracking capabilities to cross-reference the SSNs and family names of IRS employees with the corresponding SSNs and names of the taxpayer accounts accessed by the employees.)

An extensive grand jury investigation revealed that the former employee altered a relative's account by having an IRS levy released and by inputting a payment agreement. In addition, the former employee stopped enforced collection activity on the accounts of three other relatives, and altered IDRS on two occasions to issue and revise payment agreements for those relatives. During a 4-year period, the former employee utilized IDRS over 700 times to research 50 accounts in the names of relatives, church members, former boyfriends, and acquaintances. The employee resigned from IRS during the investigation. (IRS Inspection)

Bookkeeper/Accountant Pleads Guilty to Mail Fraud

A bookkeeper/accountant, who filed a false power of attorney form with IRS and falsely represented to her employer that stolen funds had been paid to IRS, pled guilty to mail fraud. Sentencing is pending. An investigation was initiated after Secret Service informed the Inspection Service that the individual, a bookkeeper for a business who also claimed to be a CPA, had embezzled over \$600,000 from her employer. Further investigation revealed that the individual was not a CPA, and that she had embezzled over \$1 million from her employer. The individual was able to divert and deposit checks by opening a separate bank account that used a business name which was close to that of the tax bank account originally established by the president of the company.

The individual used the embezzled funds to buy clothing, jewelry, and automobiles. She also purchased two cleaning franchises using over \$45,000 in cash. The United States Postal Inspection Service and the IRS Criminal Investigation Branch joined the investigation several months before the original indictment. Search warrants revealed that the individual had made purchases with numerous credit cards, including some that had been obtained using false SSNs; and that she had filed false bankruptcy documents. The individual was subsequently interviewed and made several admissions. (IRS Inspection)

Former IRS Employee Pleads Guilty to Using IDRS in a Refund Scheme

A former IRS employee pled guilty to fraud and related activity in connection with computers and to false, fictitious, or fraudulent claims. Sentencing is pending. An investigation was initiated after a landlord informed the IRS Inspection Service that the former employee, who moved into the landlord's old apartment, may have received the landlord's W-2 form and used the landlord's SSN information to order a cellular phone and credit card. The investigation revealed that the former employee used IDRS to access the landlord's confidential tax information and that several days later, someone attempted to get credit using the landlord's name and the former employee's home address. In addition, cellular telephone service was obtained using the landlord's name and the former employee's address.

Local police arrested the former employee for attempting to cash two state tax refund checks in the names of other people. During a search of the former employee's apartment complex, IRS inspectors discovered a number of false Federal income tax returns and related IDRS tax information printouts. As part of a plea agreement, the former employee admitted that she prepared and filed four Federal tax returns, requesting total tax refunds of nearly \$12,000, in the names of four different individuals. The former employee also admitted to utilizing IDRS to obtain or verify the confidential taxpayer information used to prepare and file the false tax returns. (IRS Inspection)

Two Individuals Plead Guilty to Fraud

Sentencing is pending for two individuals, the father and the uncle of an IRS employee, who pled guilty to fraud. An investigation was initiated when a former employee of a business run by the two individuals alleged that the father, the uncle,

and the IRS employee had defrauded an insurance company, the SSA, and IRS. When interviewed by the Inspection Service, the IRS employee's father confessed his involvement in a scheme to defraud the insurance company of over \$40,000 and implicated his son and brother in the fraud against the SSA.

During an interview by the Inspection Service, the IRS employee admitted to preparing fraudulent Forms 1040, United States Individual Income Tax Returns, that were used by his father and uncle in a scheme to defraud the SSA. The SSA OIG advised the Inspection Service that the amount of restitution owed to SSA was in excess of \$75,000. On the recommendation of the United States Attorney's Office, the IRS employee was placed in the Pre-Trial Diversion Program. (IRS Inspection)

Tax Protester Pleads Guilty to Submitting False Claims

A tax protester, who pled guilty to false, fictitious, or fraudulent claims related to the submission of a comptroller warrant and amended tax returns, was sentenced to 18 months of imprisonment and 3 years of supervised release, and was fined \$6,000. The Inspection Service had received information that the tax protester had harassed several IRS employees. A review of tax account indices revealed that the tax protester was the subject of Examination and Collection activity. A levy, related to a previous tax deficiency of approximately \$22,000, had been served on the employer of the tax protester's wife.

In several monitored telephone calls with a revenue officer, the tax protester threatened to file liens against IRS personnel. The tax protester then submitted a fraudulent comptroller warrant for \$35,000 to another revenue officer as payment for a previous tax liability of approximately \$22,000, requesting that the approximately \$12,000 overpayment be refunded to him. A joint Internal Security and Criminal Investigation investigation revealed that the tax protester filed amended Federal income tax returns seeking a refund of previously paid income taxes totaling over \$6,000. (IRS Inspection)

Four Individuals Plead Guilty to Conspiracy

Four individuals, who are not IRS employees, pled guilty to conspiracy. The IRS Inspection Service initiated an investigation when a bail bondsman reported that an individual wanted to hire him to obtain personal background information on an IRS employee. Numerous monitored telephone calls and meetings revealed that the individual conspired with his wife and two friends to file four false liens against two IRS employees. The false liens, each in the amount of \$500,000, also named the businesses and the officers of the businesses who received and handled the wage levies for which the individuals were retaliating. (IRS Inspection)

IRS Bribery Case

Bribery of employees is a major concern for IRS revenue and collection operations. IRS revenue agents and other employees who have frequent contact with taxpayers need to be particularly alert to the fact that their positions and associated

responsibilities make them potential targets for bribery attempts. The following case illustrates an example of bribery offers made to IRS employees.

■ A taxpayer pled guilty to bribing a public official. The IRS Inspection Service initiated an investigation after an IRS employee reported that she had received a bribe overture from a taxpayer. During a telephone conversation, the taxpayer stated that he was unhappy with his audit and inquired if there was some way the IRS employee could help him with the audit by looking at it with “closed eyes” and “think[ing] a different way” for the taxpayer.

During a series of monitored telephone calls, the taxpayer asked the IRS employee to find a way to dismiss his tax liability, even though he did not have all of the documents to substantiate the items on his tax return. The taxpayer stated that he could provide “wrong” or “fraud papers” to explain items on his return. Although he admitted that submitting fraudulent documents was illegal, the taxpayer assured the IRS employee that it would remain a secret between them.

In monitored meetings, the IRS employee told the taxpayer that she could jeopardize her job by dismissing his tax liability. The taxpayer repeatedly asked that she take the risk, reassured her that it would remain a secret between the two of them, and stated that he would pay her \$2,000 if she prepared an audit report indicating that he owed between \$900 and \$1,000. After the IRS employee gave the taxpayer an audit report indicating that he owed over \$1,000, the taxpayer gave her an envelope containing \$2,000. (IRS Inspection)

IRS Forensic Science Laboratory Deciphers Key Piece of Evidence

Two individuals, who are not IRS employees, confessed to premeditated murder in the stabbing death of an elderly woman and were charged with criminal homicide, robbery, burglary, theft, receiving stolen property, and conspiracy to commit multiple offenses. The elderly woman had been found in her home, with no signs of a struggle or forced entry, and the only evidence being a crumpled, bloody Automated Teller Machine (ATM) receipt near her body. The local police department submitted the ATM receipt to the state crime laboratory with a request to decipher any information on it.

In an attempt to interpret the ATM entries, the state laboratory document examiner washed the receipt to remove the blood. Unfortunately, most of the dot matrix entries on the receipt were removed as well. Using infrared fluorescence, the examiner was able to decipher some of the original entries. Believing that the ATM receipt contained additional information, the police department submitted it to the Federal Bureau of Investigation laboratory, which returned the receipt and infrared photographs of the receipt without issuing a laboratory report or providing any information to augment the state lab analysis.

The IRS Inspection Service Forensic Science Laboratory subsequently viewed the ATM receipt using a traditional infrared sensitive camera with infrared lens filters and a blue-green light source. A “gating” option designed to strengthen the intensity of faint images enabled the IRS document examiner to decipher additional entries on the ATM receipt. The police department was then able to associate the bloody ATM receipt with a second receipt printed by the same ATM

just 22 seconds earlier, in which the transaction and the suspect were captured on videotape.

When confronted with the evidence developed by the IRS Inspection Service Forensic Science Laboratory, the suspect admitted to his involvement in the crime and implicated the victim's nephew as the individual who committed the murder. The suspect then led detectives to the locations where he and the nephew disposed of the murder weapon and their clothing. When contacted by the police department, the victim's nephew also agreed to cooperate in the investigation. Both individuals stated that the ATM receipt had been used to prevent fingerprints on the knife's handle. The motive for the murder was \$5,200 in cash stored in the victim's home. (IRS Inspection)

This chapter contains statistical analyses of OIG and Office of Inspection and Internal Affairs activities. Several of the analyses fulfill reporting requirements in the Inspector General Act, as amended.

Statistical Summary

STATISTICAL HIGHLIGHTS a/ OCTOBER 1997 - SEPTEMBER 1998			
	6 MONTHS ENDED		
	3/31/98	9/30/98	TOTAL
<u>AUDITS</u>			
Audit Reports	138	93	231
Recommended Monetary Benefits (in Thousands):			
Questioned Costs	\$2,164	\$2,727	\$4,891
Savings	3,458	2,898	6,356
Revenue Enhancements	1,386	72,533	73,919
Total	\$7,008	\$78,158	\$85,166
<u>EVALUATIONS</u>			
Evaluation Reports	2	1	3
<u>INVESTIGATIONS</u>			
Cases Opened	1,906	2,604	4,510
Cases Closed	2,094	2,380	4,474
Successful Prosecutions	147	123	270
Administrative Sanctions	485	544	1,029
Recoveries and Penalties (in Thousands)	\$2,588	\$3,162	\$5,750
<u>OVERSIGHT AND QUALITY ASSURANCE REVIEWS</u>			
Reviews and Analyses	1	2	3
a/ Includes statistics for the OIG and Treasury Offices of Internal Affairs and Inspection.			

Audit and Evaluation Reports Issued by Bureau

Appendix A of this report lists individual audit and evaluation reports issued during the 6 months ended September 30, 1998.

OIG Audits and Evaluations	Reports
Multi-Bureau	2
ATF	6
OCC	3
Customs	11
DO	5
BEP	6
FMS	5
IRS*	10
Mint	1
BPD	2
Secret Service	1
OTS	2
Independent Entity	<u>2</u>
	56
Inspection Service Audits of IRS	<u>38</u>
Total	<u>94</u>
*Includes OIG contract audits.	

Audit Reports With Questioned Costs

The IRS Inspection Service did not issue any audit reports with questioned costs during this semiannual reporting period. The term "questioned cost" means a cost that is questioned because of (1) an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation ("unsupported cost"); or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The term "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

**OIG AUDIT REPORTS WITH QUESTIONED COSTS
6 MONTHS ENDED SEPTEMBER 30, 1998**

<u>Report Category</u>	<u>Number</u>	<u>Questioned Costs a/ (in Thousands)</u>	<u>Unsupported Costs a/ (in Thousands)</u>
1. For which no management decision had been made by the beginning of the reporting period	30	\$11,006	\$0
2. Which were issued during the reporting period	<u>3</u> b/	<u>2,727</u>	<u>0</u>
3. Subtotals (1 plus 2)	33	13,733	0
4. For which a management decision was made during the reporting period	8	323	0
n dollar value of disallowed costs	5 c/	118	0
n dollar value of costs not disallowed	4 c/	205	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>25</u>	<u>\$13,410</u>	<u>\$0</u>
6. Reports for which no management decision was made within six months of issuance	<u>22</u>	<u>\$10,683</u>	<u>\$0</u>
a/ "Questioned costs" includes "unsupported costs." b/ Two audits were performed by DCAA. c/ One report was partially agreed to and partially not agreed to.			

Audit Reports With Recommendations That Funds Be Put To Better Use

The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) costs not incurred by implementing recommended improvements related to operations; (4) avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements; (5) any other savings which are specifically identified; or (6) enhancements to revenues.

The term "management decision" means the evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions concluded to be necessary.

**OIG AUDIT REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
6 MONTHS ENDED SEPTEMBER 30, 1998**

<u>Report Category</u>	<u>Number</u>	<u>Total</u>	<u>Savings (in Thousands)</u>	<u>Revenue Enhancements (in Thousands)</u>
1. For which no management decision has been made by the commencement of the reporting period	17	\$64,787	\$18,413	\$46,374
2. Which were issued during the reporting period	5 a/	<u>75,398</u>	<u>2,898</u>	<u>72,500</u>
3. Subtotals (1 plus 2)	22	140,185	21,311	118,874
4. For which a management decision was made during the reporting period	14	66,580	19,066	47,514
n dollar value of recommendations that were agreed to by management	8 b/	49,430	5,416	44,014
n based on proposed management action	8 b/	49,430	5,416	44,014
n based on proposed legislative action	8 b/	49,430	5,416	44,014
n dollar value of recommendations that were not agreed to by management	10	17,149	13,649	3,500
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>8</u>	<u>\$73,605</u>	<u>\$2,245</u>	<u>\$71,360</u>
6. Reports for which no management decision was made within six months of issuance	<u>5</u>	<u>\$44,549</u>	<u>\$2,189</u>	<u>\$42,360</u>

a/ Four audits were performed by DCAA.

b/ Three reports were partially agreed to and partially not agreed to.

**IRS AUDIT REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
6 MONTHS ENDED SEPTEMBER 30, 1998**

<u>Report Category</u>	<u>Number</u>	<u>Total</u>	<u>Savings (in Thousands)</u>	<u>Revenue Enhancements (in Thousands)</u>
1. For which no management decision has been made by the commencement of the reporting period	0	\$0	\$0	\$0
2. Which were issued during the reporting period	<u>1</u>	<u>33</u>	<u>0</u>	<u>33</u>
3. Subtotals (1 plus 2)	1	33	0	33
4. For which a management decision was made during the reporting period	1	33	0	33
n dollar value of recommendations that were agreed to by management	1	33	0	33
n based on proposed management action	1	33	0	33
n based on proposed legislative action	0	0	0	0
n dollar value of recommendations that were not agreed to by management	0	0	0	0
5. For which no management decision has been made by the end of the reporting period (3 minus 4)	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
6. Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Disputed Audit Recommendations

The Inspector General Act requires Inspectors General to provide information on significant management decisions in response to audit recommendations, with which the

Inspectors General disagree. As of September 30, 1998, there were two disagreements to report.

In Report #OIG-97-016, Audit of Alcohol, Tobacco, and Firearms Special Occupational Tax Program, the OIG recommended that ATF devolve the verification of Special Occupational Tax (SOT) to those state or local licensing activities who volunteer to participate. In exchange, the participating licensing activities would share a portion of the SOT collected in those jurisdictions. The OIG believes that this approach would improve the collectibility of SOT revenues; while providing assurance that retailers, who are subject to the tax, are identified and held accountable for payment of the SOT.

ATF management did not agree with the recommendation and stated that the OIG's proposal would be very difficult to implement and would require legislation at the Federal, state, and local levels. In addition, ATF management believes that projected net revenue gains are speculative and would not justify such a major legislative amendment. The OIG agrees with ATF management that enabling legislation would be needed to allow ATF to contract with states that volunteer to verify SOT payment. However, because states participating in the SOT verification program would do so on a strictly voluntary basis, the OIG believes that enabling legislation at the state and/or local level would not be difficult to obtain. Furthermore, the OIG is of the opinion that ATF should not pursue the SOT verification proposal until it has taken the necessary measures to ensure that any agreements to return revenues to the states would result in cost effective net gains to the revenue collected.

In Report #OIG-98-096, U.S. Customs Service's Oversight of Consolidated Omnibus Budget Reconciliation Act User Fees, Customs did not agree with three OIG recommendations involving two issues discussed in the report. The first issue involved the propriety of Customs using COBRA funds to pay the cost of overtime and premium pay for personnel not involved in COBRA activities. Total overtime and premium pay funded through COBRA exceeded \$138 million in FY 1995. Customs believed that its position and practice was supported by Customs' Chief Counsel and saw no need to seek further clarification. The OIG maintains that using COBRA funds to pay for services for those who do not pay the user fees is incongruous with COBRA's intent. Accordingly, the OIG has independently pursued the matter with the Comptroller General of the United States.

The second issue involved conditions regarding the use of surplus funds for enhanced services, placed in the 1990 Act by Congress. Customs contends that once it has funded the five basic COBRA services, it need only meet the budgetary requirements of the 1990 Act in order to use the surplus funds. The OIG believes that Customs also must meet the 1990 Act's personnel requirements. In addition, given the requirement to report expenditures on a port-by-port basis, the OIG maintains that the personnel requirements should be applied at the local level. Customs disagreed, and the matter was referred to the Deputy Secretary for resolution under Treasury Directive 40-01.

Undecided Audit Recommendations

The Inspector General Act requires a summary of each audit report which has been undecided for over 6 months. There were 27 such reports.

STATISTICAL SUMMARIES

<u>Report Title and Date</u>	<u>Report Number</u>	<u>Amounts</u>
1. ATF Administration of Cover Over Payments to Puerto Rico and the Virgin Islands, 3/28/94 d/	OIG-94-063	3,160,000
2. Defective Pricing Review of Cost or Pricing Data Submitted Under Contract TEP-88-205(TN), Option Year One, 5/26/94 a/	OIG-94-096	2,967,177
3. Defective Pricing Review of Cost or Pricing Data Submitted Under Contract TEP-91-18(TN) Base Year Costs, 7/21/94 a/	OIG-94-116	163,499
4. Evaluation of Procurement Overhead Rates Under Contract TC-89-047, Review of Contractor's Accounts Payable Processing System, and Compliance with Cost Accounting Standard 412, 12/15/94 b/	OIG-95-029	10,234
5. Evaluation of Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ending 12/31/92, 1/11/95 b/	OIG-95-033	69,284
6. Evaluation of Direct and Indirect Costs and Rates Claimed Under Contract TFTC 91-9 for the Periods October 1, 1992, through December 31, 1993, 2/2/95 b/	OIG-95-045	5,282
7. Follow-Up Audit of the Federal Workers' Compensation Program at the U.S. Customs Service, 10/19/95 e/	OIG-96-007	2,100,000
8. Costs Incurred Under Contract TOS-91-31 for Calendar Year 1991, 3/12/96 a/	OIG-96-042	5,404
9. Costs Incurred Under Contract TOS-92-70 for Contract Audit Services, 7/26/96 a/	OIG-96-086	14,198
10. Customs Officers Pay Reform Amendments, 9/13/96 f/	OIG-96-094	15,200,000
11. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Calendar Year Ended December 31, 1993, 10/10/96 b/	OIG-97-002	135,662
12. Direct and Indirect Costs and Rates Claimed Under Contract TFTC-91-9 for the Period December 29, 1993 Through December 31, 1995, 11/5/96 b/	OIG-97-012	179,091
13. Incurred Costs Under Contracts TC-90-049 and TC-95-018 for Fiscal Year 1995, 11/6/96 a/	OIG-97-013	12,084
14. Alcohol, Tobacco, and Firearms Special Occupational Tax Program, 12/27/96 c/	OIG-97-016	24,000,000

15. Public Vouchers Submitted Under Contract TC-91-003 for Fiscal Years 1991 Through 1996, 6/13/97 a/	OIG-97-099	52,727
16. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year Ended December 31, 1992, 7/23/97 b/	OIG-97-113	33,774
17. Final Procurement Determined Indirect Cost Rates Claimed Under Contract TC-89-047 for Contractor Fiscal Year Ended December 31, 1993, 7/23/97 b/	OIG-97-114	112,884
18. Contractor's Equitable Adjustment Proposal Submitted Pursuant to Modification 113 Under Contract TIRNO-94-D-00028, 8/14/97 b/	OIG-97-120	5,036,188
19. Contract Termination Review Under Contract No. TIRNO-95-D-00059, Task Order IR-95-4515 for the Workflow Management Services, 8/22/97 a/	OIG-97-123	58,674
20. Subcontract Proposal Submitted Under Contract TIR-95-0065 for Treasury Information Processing Support Services, 9/2/97 a/	OIG-97-127	89,094
21. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1994, 9/15/97 b/	OIG-97-132	37,716
22. Verification of Voucher Costs, 9/24/97 a/	OIG-97-136	3,153
23. Verification of Subcontractor Costs Claimed Under Task Order IR-95-4515, 10/23/97 a/	OIG-98-008	4,144
24. Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1995, 12/10/97 b/	OIG-98-025	39,071
25. Termination Settlement Proposal Submitted Under Contract IR-95-0059, Task Order IR-95-4515 for the Information Processing Support Services, 1/6/98 a/	OIG-98-031	6,673
26. Contractor's Fiscal Year Ended December 31, 1992, through 1994, Applicable to Contracts TOS-91-31 and TOS-94-25, 2/25/98 a/	OIG-98-045	562,205
27. Contractor's Offset Proposal, Applicable to Contract TEP-91-38(TN), 3/11/98 a/	OIG-98-058	1,174,425
TOTAL		\$55,232,643

- a/ Contract negotiations have not yet been held or completed.
- b/ Contract negotiations have not been held and the OIG is awaiting receipt of the negotiation documentation.
- c/ The bureau disagrees with recommendation.
- d/ Recommendation is awaiting decision from General Counsel.
- e/ There is no corrective action plan in place.
- f/ Corrective action plan not yet completed.

Significant Unimplemented Recommendations

The Inspector General Act requires identification of significant recommendations described in previous semiannual reports on which corrective actions have not been completed. The following lists of such unimplemented recommendations in OIG and Inspection Service internal audit reports are based on information in the Department's automated tracking system, which is maintained by Treasury management officials. All of the recommendations are being implemented in accordance with currently established milestones.

<u>Report Number</u>	<u>Issue Date</u>	<u>Report Title/Potential Monetary Benefits and Recommendation Summary</u>
<u>OIG Audits</u>		
OIG-94-060	3/94	<p><i>U.S. Customs Service Antidumping and Countervailing (AD-CV) Duty Program</i></p> <p>Implement a Performance Measurement System for the AD-CV Duty Program that includes measures of quality, timeliness, and efficiency, and will allow Customs to assess how well the program has been implemented.</p>
OIG-94-063	3/94	<p><i>Alcohol, Tobacco, and Firearms Administration of Cover Over Payments to Puerto Rico and the Virgin Islands, \$3,160,000</i></p> <p>Implement the decision of the Department of the Treasury, Office of the General Counsel, on the timing of cover over payments.</p>
OIG-94-071	3/94	<p><i>U.S. Customs Service: Paperless Entry Program Entails Greater Risks Than Perceived</i></p> <p>Establish a single audit program for districts to use in assessing the paperless program. (Two recommendations)</p>
OIG-94-097	5/94	<p><i>FMS's Activities to Process and Monitor Agency Disbursements</i></p> <p>Ensure the correction of unresolved access control weaknesses for Regional Financial Center mainframes.</p>

OIG-97-016	12/96	<p><i>ATF SOT Program, \$24,000,000</i></p> <p>Develop verification of SOT payment to state or local licensing activities, and negotiate with those states unable to verify SOT payment prior to issuing licenses. (Two recommendations)</p>
OIG-97-025	1/97	<p><i>Financial Management Service's Internal Controls Over Processing Refunds</i></p> <p>Ensure the implementation of enhancements to the Treasury Receivable and Accounting Collection System and revisions to the Code of Federal Regulations and Gold Book. (Six recommendations)</p>
OIG-97-042	2/97	<p><i>Final Report on the U.S. Secret Service: Audit of Administratively Uncontrollable Overtime (AUO)</i></p> <p>Provide documented support with specific descriptions of AUO activities performed that clearly demonstrates that the overtime work performed meets the criteria for receiving AUO payments. (Two recommendations)</p>
OIG-97-092	5/97	<p><i>Controls Over Firearms at the Federal Law Enforcement Training Center</i></p> <p>Ensure that only authorized personnel are permitted to access to areas in which firearms are stored.</p>
OIG-96-E18	6/97	<p><i>Department of the Treasury Audit Follow-up Systems</i></p> <p>Modify the Inventory, Tracking and Closure System to allow for the centralized entry of data from GAO audits and to allow projected savings to be adjusted; conduct a needs analysis for a user friendly system. (Three recommendations)</p>
OIG-97-098	6/97	<p><i>FinCEN's Compliance with the Money Laundering Suppression Act Relating to Non-Bank Financial Institutions (NBFIs)</i></p> <p>Allow law enforcement officials access to all suspicious activity reported by banks and NBFIs. (Four recommendations)</p>
OIG-97-108	7/97	<p><i>United States Customs Service International Air Passenger Processing Nassau, Bahamas</i></p> <p>Request that the Federal Aviation Administration coordinate with Customs to ensure that loaders accomplish jobs.</p>
OIG-97-121	8/97	<p><i>Follow-up Review of Financial Management Service Activities to Process and Monitor Agency Disbursements</i></p> <p>Ensure the correction of unresolved access control weaknesses for</p>

		Regional Financial Center mainframes.
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OIG-97-126	8/97	<p><i>Benefits of U.S. Customs Service's Pre-Importation Review Program Have Not Been Fully Realized</i></p> <p>Assess the impact of recent legislation and Custom's initiatives on Pre-Importation Review to determine whether to continue the program.</p>
<u>Inspection Service Audits</u>		
#035006	9/93	<p><i>Debtor Master File Processing</i></p> <p>Improve the debtor file validation process by implementing all recommended systemic changes and assess whether mismatch conditions could be resolved through the use of IRS data files. (Two recommendations)</p>
#041403	1/94	<p><i>Nonresident Alien Information Documents</i></p> <p>Identify noncompliance during processing.</p>
#052903	2/95	<p><i>Controls Over the Issuance of Employer Identification Numbers (EINs)</i></p> <p>Identify multiple EINs to same individual/address and review for potential problems or fraud.</p>
#061610	1/96	<p><i>IRS' Efforts in Monitoring Trust Fund Recovery Penalty Assessments Need Improvement</i></p> <p>Automate the processing of adjustments resulting from payments or credits on related Trust Fund Recovery accounts and reevaluate the definition of accounts receivable related to Trust Fund Recovery assessments. (Two recommendations)</p>
#060402	1/96	<p><i>Early Intervention Contact Processing</i></p> <p>Rollout limited version of Inventory Delivery System.</p>
#064102	5/96	<p><i>Preparer Program</i></p> <p>Associate the preparer TIN with each individual return in the audit stream.</p> <p>Enhance the Midwest Automated Compliance System (MACS) so that the preparer TIN can be matched on the Audit Information Management System.</p>
#064008	6/96	<p><i>The Financial Accounting and Reporting of Collection's Seized Assets Could be Improved</i></p> <p>Implement a program enhancement allowing interface between the Automated Work Control System seizure module and the Revenue Accounting Control System.</p>

#064401	6/96	<p><i>1996 Telefile Program</i></p> <p>Ensure that the Telefile systems are adequately tested and that a Security Certification and Accreditation is completed as soon as possible.</p>
#065002	7/96	<p><i>Validity of Assessments</i></p> <p>Evaluate causes of unproductive cases and identify additional program improvements.</p> <p>Pursue the capability to access Social Security data via computer to enable quick, economical processing of cases.</p>
#065503	8/96	<p><i>Employment Tax Nonfiler Program</i></p> <p>Use Income and Tax Statements (Forms W-3) and Wage and Tax Statements (Forms W-2) information to activate filing requirements and identify nonfilers. (Three recommendations)</p>
#066401	9/96	<p><i>Follow-up Review of Information Security Over Small Scale Computer Systems</i></p> <p>Develop a security plan for the support and certification of all small scale computer systems.</p> <p>Include in first-line managers' expectations a requirement that they test computer security in periodic reviews.</p>
#071404	2/97	<p><i>Productivity of the Underreporter Program</i></p> <p>Calculate yield to cost ratio, determine productivity, and select inventory for the Underreporter Program using the Gross Assessment Method.</p> <p>Calculate productivity using actual site costs.</p>
#071304	3/97	<p><i>Quality of Information Document Processing</i></p> <p>Review IRS reports to determine whether large variances exist between processing years in the volume and dollars of information documents.</p>
#071703	3/97	<p><i>ACS/ICS DB2 Database Management System</i></p> <p>Include DB2 as a critical application in the service centers' disaster recovery plans.</p>

#072002	3/97	<p><i>National Office Examination Planning</i></p> <p>Analyze the use of MACS and other operational data to help determine productive areas for utilization of Examination resources.</p>
#072208	4/97	<p><i>Service Efforts to Ensure Compliance of Taxpayers Receiving Foreign Sourced Income</i></p> <p>Establish system controls with applicable goals and measurements to evaluate program performance. (Three recommendations)</p>
#072703	4/97	<p><i>Assessment of the Telephone Routing Interactive System (TRIS)</i></p> <p>Develop a methodology for surveying taxpayers who do not complete the TRIS application.</p>
#072303	4/97	<p><i>Cyberfile</i></p> <p>Strengthen project management procedures regarding the tracking of funds paid to vendors.</p>
#073604	6/97	<p><i>Employee Tax Compliance Program</i></p> <p>Select and screen all cases of potential underreporting of income by employees.</p>
#073804	7/97	<p><i>Inventory Delivery System Development</i></p> <p>Review and update the sampling plan.</p> <p>Include the Self-Monitoring Program as one of the factors for determining national implementation.</p>
#074204	7/97	<p><i>Follow-up of Design Deficiencies in the IDRS Audit Trail</i></p> <p>Ensure that IDRS command code record layouts agree with the formal audit guidelines and the audit trail record.</p> <p>Ensure that bulk transcript information is captured on the audit trail.</p>
#075404	9/97	<p><i>Office of Disclosure</i></p> <p>Track and control all requests for tax checks.</p> <p>Protect sensitive data maintained on the inventory control system.</p>

#075008	9/97	<p><i>Controls Over the Service's ADP Resources</i></p> <p>Perform periodic summary level comparisons between the Integrated Network and Operations Management System (INOMS) Property Management System and the administrative general ledger.</p> <p>Migrate towards having all telecommunication assets on the INOMS database.</p>
#080303	11/97	<p><i>Implementation of the TBOR2</i></p> <p>Consider alternative methods of obtaining feedback from taxpayers.</p> <p>Modify form to more completely capture data and trends on employee misconduct.</p> <p>Provide more oversight and monitoring of the implementation of the legislation.</p>
#081004	12/97	<p><i>Taxpayer Walk-in Program for the 1997 Filing Season</i></p> <p>Develop a customer-based strategy to evaluate performance of the walk-in program.</p>
#081705	1/98	<p><i>Review of Revenue Accounting Controls Over Deposit Discrepancies</i></p> <p>Revise the Internal Revenue Manual to clarify instructions and strengthen controls. (Three recommendations)</p>
#081904	1/98	<p><i>Use of Enforcement Statistics in the Collection Field Function</i></p> <p>Identify performance measures that will promote quality and appropriate case actions.</p> <p>Provide training for all executives and enforcement managers on the proper use of operational and performance measures.</p>
#082204	1/98	<p><i>Review of the Initial System Development Activities of the Integrated Submission and Remittance Processing System</i></p> <p>Ensure that the pilot's evaluation plan contains sufficient measures and data capture.</p> <p>Assess the risks of not having the systems developer under contract during Y2K.</p>

Revised Management Decisions

The Inspector General Act requires Inspectors General to provide a description and explanation of the reasons for any significant revised management decisions made during the reporting period. There were no such decisions during this reporting period.

Legislative and Regulatory Review

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the Department and to make recommendations concerning their impact. The OIG reviewed and commented on 25 Treasury Directives and Treasury Orders in the 6 months ended September 30, 1998. In addition, the OIG reviewed and commented on nine existing and proposed legislative items.

Hotline Allegations

The table below summarizes allegations of fraud, waste, misconduct, mismanagement, and assault received through "800" hotline numbers during the 6 months ended September 30, 1998. It does not include (1) allegations received by the OIG and Treasury Offices of Inspection and Internal Affairs through other sources; (2) inquiries on taxes and other matters which are referred informally to Treasury program managers and others for appropriate disposition; or (3) pending allegations for which dispositions have not been determined.

Organization				
<u>Disposition of Allegations</u>	<u>Total</u>	<u>OIG</u>	<u>USCS</u>	<u>IRS</u>
Referred for investigative or audit inquiry	174	149	1	24
Referred to program managers	103	88	0	15
Referred to other agencies	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>277</u>	<u>237</u>	<u>1</u>	<u>39</u>
1-800-359-3898 OIG Hotline 1-800-BE-ALERT Customs Hotline 1-800-366-4484 IRS Hotline				

Caseload Accounting

This table accounts for the caseload of the OIG and Offices of Internal Affairs and Inspection for the 6 months ended September 30, 1998. The beginning balance of cases, plus the cases opened, minus the cases closed, equals the ending balance of open cases.

Organization						
	<u>Total</u>	<u>OIG</u>	<u>ATF</u>	<u>USCS</u>	<u>IRS</u>	<u>USSS</u>
Number of open cases at the beginning of the period	2,395*	177*	179	487	1,506*	46*
Number of cases opened during the period	2,604	47	81	876	1,568	32
Number of cases closed during the period	2,380	48	136	555	1,622	19
Number of open cases at the end of the period	2,619	176	124	808	1,452	59
*Adjusted figures.						

Nature of Allegations

The table below classifies the nature of allegations for investigative cases opened during the period. The number of allegations equals the number of cases opened because only the most significant allegation per case was counted.

Organization						
	<u>Total</u>	<u>OIG</u>	<u>ATF</u>	<u>USCS</u>	<u>IRS</u>	<u>USSS</u>
Bribes, graft, kickbacks	212	2	0	124	85	1
Procurement and contract irregularities	20	4	4	2	10	0
Assaults/threats	521	0	2	29	486	4
False statements and claims	236	1	10	50	174	1
Theft/misuse of funds/property	355	12	17	91	231	4
Drug abuse and control	66	0	3	55	8	0
Impersonating a Government official	114	0	0	48	66	0
Criminal – Other	355	3	2	91	258	1

Sexual Harassment	44	2	0	35	5	2
Improper conduct or disclosure	504	20	34	227	213	10
Non-Criminal – Other	<u>177</u>	<u>3</u>	<u>9</u>	<u>124</u>	<u>32</u>	<u>9</u>
Total Allegations	<u>2,604</u>	<u>47</u>	<u>81</u>	<u>876</u>	<u>1,568</u>	<u>32</u>

Prosecutive Actions

The chart below accounts for the prosecutive actions of the OIG and Offices of Internal Affairs and Inspection for the 6 months ended September 30, 1998. The number of pending cases at the beginning of the period, plus the cases referred to prosecutive authorities, less the cases accepted for prosecution, less the declinations, equals the pending cases at the end of the period.

Organization						
	<u>Total</u>	<u>OIG</u>	<u>ATF</u>	<u>USCS</u>	<u>IRS</u>	<u>USSS</u>
Number of cases pending prosecutive decision at the beginning of the period	1,003	17*	2	23	954	7
Number of cases referred to prosecutive authorities during the period	886	9	13	126	733	5
Number of cases accepted for prosecution during the period	208	4	0	73	128	3
Number of declinations during the period	645	5	12	54	574	0
Number of cases pending prosecutive decision at the end of the period	1,036	17	3	22	985	9
*Complete data is not available for this figure.						

Successful Prosecutions

This chart shows the number of successful prosecutions involving the cases of the OIG and Offices of Internal Affairs and Inspection during the 6 months ended September 30, 1998. Successful prosecutions include the number of individuals who as a result of investigations

(1) are found guilty by a Federal or state court, (2) are accepted for pretrial diversion agreements by the Department of Justice, or (3) are granted plea bargaining agreements.

<u>Organization</u>	<u>Prosecutions</u>
OIG	1
ATF	1
USCS	14
IRS	105
USSS	<u>2</u>
Total	<u>123</u>

Administrative Sanctions

This chart shows the number of personnel actions and the number of suspensions and debarments of contractors involving cases of the OIG and Offices of Internal Affairs and Inspection.

<u>Organization</u>	<u>Personnel Actions</u>	<u>Suspensions and Debarments</u>
OIG	12	1
ATF	25	0
USCS	102	0
IRS	396	0
USSS	<u>8</u>	<u>0</u>
Total	<u>543</u>	<u>1</u>

Investigative Monetary Benefits

This table summarizes monetary benefits relating to investigations of the OIG and Offices of Internal Affairs and Inspections.

<u>Organization</u>	<u>Total</u>	<u>Recoveries</u>	<u>Criminal Penalties</u>	<u>Administrative Penalties</u>	<u>Savings</u>
OIG	\$3,000	\$3,000	\$0	\$0	\$0
ATF	0	0	0	0	0
USCS	1,910	1,765	145	0	0
IRS	3,155,995	3,001,124	154,871	0	0
USSS	<u>730</u>	<u>0</u>	<u>730</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,161,635</u>	<u>\$3,005,889</u>	<u>\$155,746</u>	<u>\$0</u>	<u>\$0</u>

Access to Information

The Inspector General Act requires Inspectors General to report on unreasonable refusals of information available to the agency which relate to programs and operations for which the Inspector General has responsibilities. There were no instances to report where information or assistance requested by the Inspector General or the Offices of Internal Affairs and Inspection were unreasonably refused.

April 1, 1998 Through September 30, 1998

OID Audits and Evaluations

Multi-Bureau

Incurring Costs Under Contracts TIR-92-0104, TOS-92-0034, TC-96-020, TM-96-1001, TCC-90-C-0001, and TCC-94-C-0010 for Fiscal Years 1994 Through 1996, OIG-98-074, 4/15/98

U.S Department of the Treasury's Resolution of Risks Associated with the Electronic Benefits Transfer Program, OIG-98-081, 4/27/98

Bureau of Alcohol, Tobacco and Firearms

Questionnaire Results for the Bureau of Alcohol, Tobacco and Firearms' Integrated Ballistics Identification System, OIG-CA-98-002, 4/14/98

Final Report on the Bureau of Alcohol, Tobacco and Firearm's Violent Offender Program, OIG-98-086, 5/13/98

Proposal Submitted in Response to Solicitation BATF-98-4 for Uniform Warehousing, Management, and Distribution, OIG-98-087, 5/13/98, **\$2,842,440 S**

Contractor's Accounting Methods Pertaining to Purchase Order AT-98-0177 and Solicitation BATF-97-16, OIG-98-095, 6/30/98

Contractor's Accounting System, OIG-98-115, 9/10/98

Proposal Submitted in Response to Solicitation BATF-98-19 for Training Support Services, Data Entry, and Analysis, OIG-98-116, 9/10/98

Office of the Comptroller of the Currency

OCC Needs to Improve Its Implementation of the Community Reinvestment Act Small Bank Performance Standards, OIG-98-091, 5/28/98

Audited Calendar Year 1997 Financial Statements of the Office of the Comptroller of the Currency, OIG-98-105, 7/16/98

Cost or Pricing Data Submitted Under Contract TCC-97-C-0009 for Information Technology Services, OIG-98-114, 9/10/98

**1/ Amounts shown for some reports represent recommended monetary benefits.
Q = Questioned Costs; S = Savings; R = Revenue Enhancements.**

U.S. Customs Service

United States Customs Service: Audit of Customs Passenger User Fees, OIG-98-083, 5/1/98, **\$43,500,000 R**

U.S. Customs Service's Efforts to Prevent Narcotics Smuggling In Line Release Cargo Shipments, OIG-98-085, 5/13/98

Timekeeping Practices and Physical Observations of Work Areas Applicable to Contract TC-95-025, OIG-98-089, 5/27/98

U.S. Customs Service's Oversight of Consolidated Omnibus Budget Reconciliation Act User Fees, OIG-98-096, 7/1/98

Contractor's Accounting System, OIG-98-098, 7/6/98

Labor Floorchecks and Timekeeping Practices, OIG-98-102, 7/13/98

United States Customs Service Laboratories, OIG-98-103, 7/10/98

Contractor's Estimating System, OIG-98-104, 7/16/98

Incurred Costs for Contractor's Fiscal Years Ended December 31, 1994, Through December 31, 1996, OIG-98-106, 7/27/98

Contractor's Compensation System, OIG-98-109, 8/20/98

Direct and Indirect Costs and Rates Claimed Under Contract TC-89-047 for Fiscal Year Ended December 31, 1996, OIG-98-122, 9/24/98

Departmental Offices

Treasury Department's Compliance With Office of Management and Budget Circular No. A-131, Value Engineering, OIG-98-073, 4/9/98

Direct and Indirect Costs and Rates Claimed Under Contract TOS-92-0036 for Fiscal Years 1992 Through 1995, OIG-98-088, 5/18/98

The Department Met the Year 2000 Compliance Indicators for Fiscal Year 1997, OIG-98-090, 5/27/98

Executive Dining Room, OIG-98-117, 9/14/98

Bank Enterprise Award Program, OIG-98-118, 9/11/98

Supplement to Report on the Department of the Treasury's Fiscal Year 1997 Custodial Schedules and Administrative Statements, OIG-98-066S, 9/28/98

Bureau of Engraving and Printing

Contractor's Compliance With Cost Accounting Standard 405 Accounting for Unallowable Costs, OIG-98-092, 6/12/98

Contractor's Compliance With Cost Accounting Standard 406, OIG-98-093, 6/16/98

Labor Floorchecks, OIG-98-100, 7/7/98

Costs Incurred Under Contracts TEP-91-66 and TEP-95-06 for Fiscal Years 1995 and 1996, OIG-98-101, 7/7/98, **\$504,860 Q**

Costs Incurred Under Contract TEP-92-39(N) for Fiscal Years Ended September 30, 1994, 1995, and 1996, OIG-98-107, 8/5/98

Evaluation of Proposal Submitted Under Contract TEP-96-17, OIG-98-113, 8/25/98, **\$55,800 S**

Financial Management Service

Audited Fiscal Year 1997 Financial Statements of the FMS Salaries and Expense Appropriation, OIG-98-071, 4/6/98

Engagement to Audit the Fiscal Year 1997 Financial Statements of the Miscellaneous Accounts Administered by the Financial Management Service, OIG-98-079, 4/17/98

Effective Planning and Management Are Needed For the Development of an Automated System to Administer the Debt Collection Improvement Act of 1996, OIG-98-110, 8/20/98, **\$7,000,000 R**

Financial Management Services Administration of the Cash Management Improvement Act of 1990 for California, OIG-98-112, 8/20/98, **\$2,200,000 Q**

Financial Management Service's Strategic Planning Process, OIG-97-E06, September 1998

Internal Revenue Service

Direct and Indirect Costs and Rates Claimed Under Contract TIR-95-0059 for Fiscal Year Ended March 29, 1996, OIG-98-075, 4/16/98

Internal Revenue Service Office of the Chief Inspector's Internal Audit Planning Process, OIG-98-076, 4/15/98

Termination Settlement Proposal Submitted Under Contract TIR-89-0056, Task Order 068 and Task Order 082, OIG-98-082, 4/30/98

Effectiveness of Using Commercial Bank Lockboxes for Federal Income Tax Payments, OIG-98-097, 8/20/98, **\$22,000,000 R**

Follow-Up Evaluation of Contractor's Estimating System, OIG-98-099, 7/7/98

Direct and Indirect Costs and Rates Claimed Under Contract TIR-93-0022 for Fiscal Years Ended December 31, 1992 and December 31, 1993, OIG-98-111, 8/24/98

Supplement to Audit of the Internal Revenue Service Fiscal Year 1997 Administrative Financial Statements, OIG-98-063S, 9/10/98

Incurred Costs For Contractor's Fiscal Years Ended December 31, 1994, and 1995, OIG-98-119, 9/21/98, **\$3,500 Q**

Evaluation Submitted in Response to Solicitation TIRNO-97-R-00018, OIG-98-121, 9/23/98

Incurred Costs for Fiscal Year 1996, OIG-98-123, 9/24/98

Quality Control Review of the Internal Revenue Service Office of the Chief Inspector's Midstates Regional Office, OIG-98-124, 9/30/98

U.S Mint

Audited Fiscal Year 1997 Financial Statements of the United States Mint, OIG-98-084, 5/8/98

Bureau of the Public Debt

Processing of Investment Transactions by the Treasury Bureau of the Public Debt Government Securities Management Branch as a Service Organization, OIG-98-078, 4/15/98

Treasury Bureau of the Public Debt Government Securities Management Branch Custodial Financial Statements for the Year Ended September 30, 1997, OIG-98-080, 4/23/98

U.S. Secret Service

Clear and Complete Relocation Guidelines Could Result in Savings at the United States Secret Service, OIG-98-108, 8/11/98

Office of Thrift Supervision

Audited Calendar Year 1997 Financial Statements of the Office of Thrift Supervision, OIG-98-094, 6/11/98

Consultative Report on the Office of Thrift Supervision Examination of On-Line and Internet Banking Risks, OIG-CA-98-003, 9/30/98

Independent Entity

Audited Fiscal Years 1997 and 1996 Financial Statements of the Treasury Forfeiture Fund, OIG-98-072, 4/3/98

Audited Fiscal Year 1997 Financial Statements of the Federal Financing Bank, OIG-98-077, 4/15/98

Inspection Service Audits

Internal Revenue Service

Risks and Costs Related to the Purchase and Control of Airline Tickets, 082905, 4/1/98, \$33,137 R

Bankruptcy Case Controls - Upstate New York District, 681603, 4/2/98

Controls for Ensuring that Federal Tax Liens are Promptly Released - Pennsylvania District, 681702, 4/15/98

Service's Electronic Federal Tax Payment System (EFTPS) Implementation and Enhancements, 083008, 4/16/98

INOMS Controls for the Century 2000 Initiative - Northeast Region, 681803, 4/24/98

Effectiveness of Invalid Primary SSN Processing, 083105, 5/7/98

Safeguarding Remittances - Philadelphia Service Center, 681901, 5/8/98

Controls over High Intensity Drug Trafficking Area Funds, 083203, 5/11/98

Federally Funded Research and Development Center Contract Awarded to the Illinois Institute of Technology and Research Institute, 083401, 5/19/98

Compliance with Self-Employment Tax Requirements, 083502, 5/19/98

Math Error Processing for Revenue Protection Issues, 083322, 5/22/98

Physical Security Measures in National Office Facilities, 280603, 6/2/98

Controls Over the Processing of Exempt Organization Cases - National Office, 083905, 6/12/98

On-Line Review of Processing Electronic Tax Returns, 084200, 6/22/98

Installment Agreement Program, 084004, 6/23/98

Service's Year 2000 Conversion and Testing for Phase III, 083605, 6/24/98

Controls Over Criminal Investigation Undercover Operations, 083803, 6/24/98

Selected EDP Controls of the Examination Returns Control System, 084504, 6/24/98

Need to Deobligate Unliquidated Obligations, 084602, 6/26/98

1998 Telefile Program Individual Master File (IMF), 084700, 7/6/98

Integration Support Contract (ISC), 084803, 7/6/98

1998 Filing Season Readiness, 083705, 7/7/98

Examination Division's Use of Performance Measures and Statistics, 084303, 7/7/98

Use of Seizure Authority - Collection Field Function, 084407, 7/7/98

Waste Disposal Management - Northeast Region, 682004, 7/10/98

On-line Review of the Pre-Solicitation Phase of the PRIME Contract, 084901, 7/14/98

Federal Employees Health Benefits Program, 085003, 7/14/98

Examination and Collection Statute Controls - Northeast Region, 682103, 8/3/98

IRS' Oversight of the AT&T Contract for Toll-Free Telephone Service, 085301, 8/4/98

On-Line Review of the 1998 Filing Season, 085408, 8/7/98

Statute Controls Pennsylvania District, 682203, 8/7/98

Service Procedures for Monitoring Federal Tax Deposits, 085105, 8/14/98

Funding for Earned Income Tax Credit (EITC) Initiatives, 085602, 8/28/98

Opportunities to Improve IRS Business Taxpayer Education, 085507, 8/31/98

Controls for Ensuring that Federal Tax Liens are Promptly Released - Northeast Region, 682302, 9/8/98

Proper Identification Of Problem Resolution Cases, 085701, 9/11/98

Readiness For Service Center Mainframe Consolidation, 085812, 9/21/98

Southern California District Fraud Referral Program, 981202, 9/30/98

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1/ As Amended